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Business this week

Apr 12th 2001
From The Economist print edition

Power base

E.ON, Germany's second-largest power company, made a long-awaited offer, worth *euro*8.2 billion ($7.3 billion), for **Powergen**, a British counterpart. The purchase of Britain's second-biggest electricity generator would give E.ON an entry into America's electricity market through LG&E, a Kentucky electricity company owned by Powergen. E.ON said that it would sell Degussa, its chemicals division, and some property interests, to satisfy American regulators.

See article: E.ON's transatlantic gamble

California's electricity crisis rumbled on. One of the state's big two electricity firms, Pacific Gas & Electric, sought Chapter 11 bankruptcy protection after running up enormous debts to pay for electricity that it was forced to sell on to consumers at a capped rate. The other large electricity company, Southern California Edison, sold part of its transmission grid to the state for $2.76 billion.

See article: The 'energy crisis' continues

Hitachi and **Kawasaki Heavy Industries** announced an alliance to build overseas railway systems, to compete with rapidly consolidating foreign companies. The two firms will offer a full range of construction, maintenance and other services.

Intel, the world's biggest chip maker, admitted that the European Commission was investigating its marketing practices. America's Advanced Micro Devices and Taiwan's VIA Technologies allege that Intel abused its dominant market position to the detriment of other chip makers.

America's **Motorola**, which is the world's second-biggest mobile-phone maker, reported its first quarterly loss in 15 years. It blamed weak demand for chips and telecoms equipment as well as mobile phones.

Siemens, a German engineering conglomerate, is to lay off some 2,000 staff, a quarter of its total workforce, from its mobile-handset unit in response to falling demand for mobile phones.

Marconi, a British telecoms-equipment manufacturer, said that it would shed 3,000 jobs, over 5% of its workforce, over the next year. The company hopes to reassure investors that it will be in a strong position to weather the downturn in America's economy.

Clicks, bricks

Amazon, a leading online retailer, surprised investors with the news that performance in the latest quarter would be better than expected. Sales were 22% higher than in the same period in 2000, and net losses were forecast at less than $255m, an improvement. Amazon's shares leapt by 34%. Separately, the firm also announced a link-up with Borders, in which Amazon will take over its rival bookseller's online operations.

A leaked document suggested that **Marks and Spencer**, a troubled British retailer, would make profits of only £430m ($610m) for the year to the end of March, a figure predicted by only the most pessimistic analysts. M&S's problems worsened after a French court ruled that plans to close its 18 outlets in France, part of a restructuring aimed at improving its terrible performance, contravened labour law.

See article: Marks and Spencer's troubles

Sales at British supermarkets boomed. **Tesco** reported that pre-tax profits for the year to February rose 13% to just over £1 billion ($1.4 billion), with sales increasing by 12%. **Sainsbury**, Britain's second-largest supermarket chain, said its sales in the first quarter were up 4.8%, unexpectedly higher than anticipated.

See article: Tesco piles up the profits

America's **Northwest Airlines** reached an agreement with its mechanics union, subject to ratification by union members, that should head off forthcoming strike action. Strikes planned for the spring and summer by pilots at Delta Air Lines and flight attendants at American Airlines and United Airlines could still bring chaos for travellers.

Legal insurance

Prudential, a British life insurer, filed a lawsuit against **AIG**, the world's largest insurer, alleging that AIG had "interfered" with Prudential's $21 billion all-share bid for **American General**. Prudential's bid for the American insurer, originally worth nearly $27 billion, was hit after its share price sagged alarmingly. AIG are accused of "jumping the gun" by making an all-share offer worth around $23 billion.

Aetna, America's largest health insurer, said that profits in the latest quarter would be far below expectations. It blamed rising costs at its health maintenance organisation. The firm's shares plunged by nearly 20%.

America's jobless

Poor employment figures added to **America's economic woes**. Employment in March fell by the highest monthly rate for nearly ten years, and the jobless total edged up to 4.3%. That knocked hopes of a rapid recovery for the economy. Even so, American stockmarkets rallied: the Dow Jones Industrial Average rose above 10,000 for the first time since March 20th.

The **European Central Bank** surprised markets by standing pat. A quarter-point cut in interest rates had been widely expected amid fears of slower economic growth to come in Europe.

See article: European interest rates

The EU trade commissioner, Pascal Lamy, announced that he had reached agreement with the Americans over their long-running **banana-trade** dispute. If the deal is approved, the Americans will suspend $191m of trade sanctions from July 1st.

A **World Bank** report said that world GDP growth will slow to 2.2% this year, but that the period of slow growth will be brief. It forecast that the world economy will grow by 3.3% in 2002. Developing countries are expected to grow by 4.2% in 2001, driven by a strong performance in East Asia and the Pacific.

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The world this week

Apr 12th 2001
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Spy saga, cont

America appeared to have reached an agreement with China for the release of the crew of an American **spy plane** that had landed in China after colliding with a Chinese jet. America delivered a letter to China saying that it was “very sorry” about the Chinese pilot’s death and for entering Chinese airspace. China interpreted this as the apology it had demanded.

See article: High noon in Hainan

George Bush released his budget plans, saying he intended to provide “needs without the fat”. They called for education spending to rise and for cuts in many big departments, particularly agriculture and transport.

See article: Mr Bush’s budget

No overall winner emerged in **Los Angeles**’s mayoral election. Two candidates, James Hahn and Antonio Villaraigosa, will contest a run-off on June 5th.

Alan Garcia, a populist ex-president remembered for his chaotic misrule, staged a political comeback in **Peru**’s presidential election. He won 26% of the vote, and will now take part in a run-off with Alejandro Toledo, long the front-runner, who polled 36%, less than expected.

EPA

See article: Peru’s surprising presidential election

Pressure increased in **Brazil** for an inquiry into corruption in Sudam, a development agency for Amazonia. The opposition accused Jader Barbalho, Senate president and a supporter of President Fernando Henrique Cardoso, of being linked to the embezzlement of $830m at the agency. He denies the allegations.

See article: Clouds over Brazil’s Senate leader

In a delayed reaction to last month’s presidential election in **Guyana**, opposition supporters rioted. The election was won by Bharrat Jagdeo, the incumbent, who leads a mainly Indo-Guyanese party.

Reuters

See article: Guyana’s post-election riots

Trade ministers from 34 countries rejected efforts to hasten a proposed **free-trade area of the Americas**. Instead, they said they would stick to their planned timetable, which calls for negotations to be concluded by January 2005.

Fighting on

Low-level warfare escalated between **Israelis and Palestinians**. Rabbi Ovadia Yosef, the spiritual leader of Israel's influential Shas party, preached a sermon calling for God's annihilation of Arabs. Jordan's King Abdullah pressed President George Bush to re-engage in the Middle East peace process.

Rwanda agreed to hand over to the United Nations war-crimes tribunal army officers who are suspected of having committed atrocities in response to the 1994 genocide.

Some 42 nationalist politicians, including several, mostly elderly, members of the secular-leaning Freedom Party, were arrested in **Iran**. India's prime minister, visited Tehran, Iran's capital, to discuss, among other things, a proposal for Iran to supply India with natural gas through an overland or deep-sea pipeline.

See article: Will Iran's president run again?

Around 15,000 former soldiers were mobilised in **Liberia** to go to the Guinean border, where fighting has broken out. West African leaders called an emergency meeting in Nigeria to stop the regional conflict spreading, but Guinea and Sierra Leone refused to attend.

An epidemic of meningitis and measles has killed more than 200 children in Kano, in northern **Nigeria**. In Burkina Faso more than 1,000 have died of meningitis in the past three months.

Missing in action

Nine Vietnamese and seven Americans died when their helicopter crashed in central **Vietnam** during a search for the remains of Americans missing since the Vietnam war.

Pakistan's Supreme Court set aside a conviction for corruption against **Benazir Bhutto**, a former prime minister, and ordered a retrial. Miss Bhutto, now in exile, is said to be considering a return to Pakistan.

See article: Benazir Bhutto's future

Over 70 policemen in **Nepal** were killed by Maoist rebels in their fiercest attacks for several years.

AP

After weeks of speculation, the Japanese prime minister, **Yoshiro Mori**, confirmed that he was stepping down. His successor will be announced after a meeting of the ruling party on April 24th.

See article: Choosing Japan's next prime minister

Secessionist Muslims in southern **Thailand** were blamed for bomb attacks in two Thai cities. A boy was killed and about 40 people wounded.

See article: Two bombings in Thailand

Foot-and-mouth fix

European farm ministers met in Ostersund, in Sweden, to find ways to end the spread of **foot-and-mouth** disease.

See article: Angry Chinese

Visiting **Russia**, Chancellor Gerhard Schröder of Germany discussed debt repayments, trade and the independence of the Russian media with President Vladimir Putin.

AP

Preparing for **Italy**'s general election, Silvio Berlusconi's party made a regional pact in Sicily with a small, hardline neo-fascist group.

The **Vatican** agreed to end some broadcasts from its 40-language radio station after the Italian authorities had said the antennae were emitting levels of radiation that could prove dangerous to Romans.

An agreement between **Macedonia** and EU foreign ministers set out political and economic reforms for the country, and hinted at its eventual membership of the EU.

The Dutch parliament gave its final endorsement to a law introducing **euthanasia**. The law allows doctors to end the lives of those suffering intolerably and without hope.

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Perfect?

Apr 12th 2001
From The Economist print edition

STEP forward to a dinner party in 2025. Your hostess warns you that the tomatoes are the new cholesterol-reducing ones. Your host grumbles that he eats only organic food. Your gay neighbour tells you how his clone (should you think of it as his son or his brother?) is doing at school. Somebody mentions the amount that the Smiths have paid to make sure their next daughter has blue eyes. Wouldn't it have been better spent on making her musical? Somebody jokes about that couple who could have had a Margaret Thatcher clone but chose a Bill Clinton instead. On the drive back, the headlines are about attempts to raise the retirement age to 95.

This is not a prophecy, merely a set of possibilities that the revolution in genetic science might throw up. Would such a world horrify you, inspire you, liberate you, disgust you? Perhaps a combination of all these emotions. Genetic science does not pose just the "normal" questions of how we should regulate any new technology. It also presents ethical and political challenges, many of which cut across the traditional barriers of liberalism and conservatism. If America is a guide (see article), then most politicians are floundering to understand what may be just around the corner.

The debates about genetic science tend to be ones where the extremes offer the only consistent positions. The Roman Catholic church, for instance, tends to oppose most reproductive meddling for humans, including cloning. On the other side, libertarians, the biotechnology industry and most scientists take the opposite tack: that people should be as free as possible to choose what they do with their bodies and (by extension) those of their children.

The Economist, by and large, has been on the side of science. In agriculture, we have defended genetically modified food as a source of cheaper, better nutrition. In human health, biotechnology offers two magical things—the chance to tailor a medicine to a specific person, and the chance to prevent some diseases before they occur. On the whole, it has seemed wrong to deny people the opportunity to try these things. A laisser-faire attitude towards IVF has, for instance, already helped countless childless couples have children.

But scepticism, not just of ideological creeds but also of technology, is also part of liberalism. It is not illiberal to draw a few lines around a technology that so many people feel queasy about and about which so little is yet known. And it is not illiberal to worry about the rights of the children whom parents may be tempted to try to perfect.

Begin with two easy decisions. First, every country should have some equivalent of Britain's Human Fertilisation and Embryology Authority (HFEA)—a permanent independent regulatory overseer, composed of scientists and ethicists, that reports to the health ministry. This may involve a little more red tape. But it forces scientists to justify what they are doing as "necessary and desirable" every time they leap ahead. And it is surely preferable to the American system, where the government's only hold over the industry comes through dictating how public money can be spent. Voters will not be happy that their government did nothing to stop something horrible happening in a laboratory just because it happened in a private-sector one.

Next, those authorities should impose a moratorium on reproductive human cloning.This is not a matter of ethical choice but, as with our opposition to xenotransplantation (putting animal organs into humans), of safety. In principle, human cloning is easy: find a donor egg, suck out the nucleus, inject a cell from the person whom you wish to copy, encourage it to start growing. In practice there are big technical hurdles. Only around one in 20 animal clones survives; many come with terrible deformities. That sort of success rate is tolerable with flies and sheep; not so with humans.

And now, the hard part

That still leaves the much harder ethical question of whether developments like cloning (even if safe) and genetic modification are welcome. Here, the correct starting-point is that it is up to the opponents of cloning to make their case, not its protagonists: the burden of proof should lie with those who would regulate or ban. However, this approach should not imply that this burden is impossible to meet.

The case for most sorts of human cloning is simple and similar to IVF: it will allow people who cannot reproduce to do so. Critics argue that enormous numbers of clones would pose worries about the strength of humans as a species; sex, they say, is there for a purpose. Yet it would take millions of clones to have much impact on the health of a species that already numbers six billion. It is also unlikely that many couples will choose cloning over old-fashioned procreation. Indeed, current prejudice already suggests that many will believe clones to be somehow inferior to other humans.

The more general fear is that cloning represents a form of despotism over future generations. Cloning will not produce a perfect copy. A clone will merely have the same genes as his father or mother. Produced in a different womb and growing up at a different time than his forebear, a clone may (we don't know) be much less similar than an identical twin. Cloning will create individuals. Yet that fact alone does not mean that all sorts of cloning would be welcome from the child's point of view. Who would want to be that Margaret Thatcher clone? In general, the further cloning veers from being simply a treatment for the otherwise infertile towards being an attempt to stamp predetermined characteristics on your offspring, the more legitimate the fears about parental despotism look—and the more regulators should be tempted to intervene.

The same sort of line—between (welcome) medical treatment and (inadvisable) parental perfectionism—should also be drawn in the separate and more complicated field of pre-birth genetic modification. Parents can already select which particular embryos to implant, so as to screen out specific diseases. In the longer run, modifying those embryos offers a chance to practise a form of benign eugenics: for parents to eliminate undesirable traits from their children. So long as those traits are medical conditions, this seems acceptable: why deprive children of the chance to live without Parkinson's disease? But the queasy feeling takes over once parents start eradicating character traits such as homosexuality, or actively selecting good genes—athleticism, tallness, a high IQ.

Of course, parents have always tried to determine their children's genes. Aristotle advised men to tie off their left testicle to guarantee a male child. But genetically modifying embryos surely marks a new departure—a potential loss of dignity and of autonomy. A child who is required to take up piano lessons by his parents can later give them up; he cannot change the fact that they made him ten inches taller.

While setting out such fears, it is vital to recognise both that they will be hard to translate into regulations and, more important, that the fears may prove misplaced. By any reasonable measure, the new eugenics, based on individual choice, represents a far more benevolent regime than the old racist sort. Governments should be open-minded about these developments, but cautious and questioning as well. Society needs to beware scientific hubris on one side and blind fear of the new on the other. As ever, scepticism and pragmatism, the great liberal virtues, will be the best guide.

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High noon in Hainan

Apr 12th 2001
From The Economist print edition

Tough on security but open for trade: that should be George Bush's policy towards China now that the spy-plane stand-off is over

Reuters

WHEN nothing was happening, the fictional journalists in Evelyn Waugh's "Scoop" invariably wrote that "an eerie silence had descended" on whatever place they had found themselves in. If William Boot had been sent to Hainan Island, where the notoriously noseless American spy plane is sitting on an airfield and where its 24 crew were held in custody, an eerie silence would actually have been good news. Instead, there was a cacophony of nationalist noise on both sides of the argument, and much talk of long-term harm to the relationship between America and China. On April 11th, however, a quieter and more sensible resolution was reached, with a form of words under which the protagonists could both declare victory and retreat. So will any long-term harm actually have been done by these strange 11 days in Hainan?

It depends on whether there is now silence, or whether things turn genuinely eerie. The Americans have said sorry, as far as they felt they could without actually accepting responsibility for the mid-air crash over the South China Sea that caused this kerfuffle. The Chinese are sending the American crew home, for "humanitarian reasons", but feel, by having obtained some sort of an apology, that they have kept their pride. The initial signs are that it was the Chinese who gave way to make this deal possible, but all may not yet be known. In any case, both will doubtless now reinterpret the deal for their domestic audiences in their respectively favourable ways. But what will matter more is whether either side decides that it now wants, or needs, to make a further point through words or actions. And that mainly means America.

A firm line but an open door

In the stand-off over the plane, China has held all the cards—ie, the crew and the plane. But in the aftermath, America will hold most of the cards: over trade, arms sales to Taiwan, support for China's Olympic bid, and so on. The real question is therefore how, in the light of what has happened, it should play them.

One tempting course would also be the least productive: to use trade sanctions as a punishment. Sanctions rarely work in any event; when, as now that the Hainan confrontation is over, there is no quid to be had for the quo of relaxing them, they would be merely a rude gesture.

Some congressmen think the quid could be better Chinese behaviour on human rights. But that is virtually unmeasurable, and would anyway lead simply to artificially "good" behaviour in the run-up to an assessment of trading relations, as has always happened in recent years when the vote on China's "most-favoured nation" trading status was approaching. To return China to that annual ritual would achieve nothing. It would also play into the hands of Chinese hardliners who have opposed their country's pro-market reforms and membership of the World Trade Organisation. Slow progress in getting China into the WTO already means that Congress will again have to vote this summer on China's trading status: the best outcome would be to keep things as they are, all the better to get China into the WTO and subject to the pressure of international trade laws.

Where America should, however, maintain a tough line is on security. The policy, begun by Richard Nixon and Henry Kissinger, of engaging China within a clear set of security parameters, remains the right course. Above all, that means confirming, in talks due to begin on April 18th, that American planes will still fly freely over international airspace. And it means leaving China in no doubt that America would intervene in the event of an invasion of Taiwan. Now, with a decision over arms sales to the "renegade

province” imminent, that might take the form of the sale to Taiwan of better defence kit than it might otherwise have received. That would be a sturdy, even provocative act. But, given China’s missile build-up and its belligerent words, it would be justified. Mr Bush, in his expressions of regret, has already shown enough flexibility. To show more would be dangerous.

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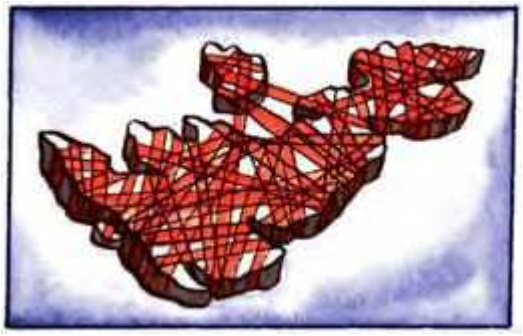
Does Britain want to be rich?

Apr 12th 2001
From The Economist print edition

Britain needs to give people an interest in fostering economic growth in their locality, not in stifling it



IN THE late Middle Ages, profits from the wool boom helped build one of the best and most beautiful universities in the world. Now that university is responsible for the area's latest economic success: a concentration of software, communications and biotechnology companies, nicknamed Silicon Fen after the East Anglian flatlands that stretch eastwards from Cambridge towards the sea. With around 1,600 firms, Cambridge has the biggest concentration of high-tech companies anywhere in Europe.

Elsewhere in Europe, clusters have grown around big manufacturing companies—telecoms and software around Ericsson in Stockholm, wireless and Internet around Nokia in Helsinki. Silicon Fen is more like California's Silicon Valley. It has grown from the bottom up into an entrepreneurial centre plugged into a network of money and experience in London and America. Unlike the Valley, however, the Fen has barely been shaken by the dotcom stockmarket slump (see article): while the dotcom business was more about dreaming up fancy business models, Cambridge's university connections ensure that it does serious science.

The trouble with planning

But Cambridge has its own frustrations. Many of the companies there say it is a struggle to grow. Their principal complaint is not of the shortage of people who can read and write, nor of the short-termism of investors, nor any of the other familiar complaints about Britain. They say that the main reason they cannot grow is the planning system. Applications to erect a new building grind slowly through the system; appeals, if an application is turned down, take years. High-tech businesses do not have years to waste.

Britain's economic performance has, over the long haul, been moderate, at best. In the second half of the 20th century, Britain's average annual growth rate was 2.5%, compared with America's 3.2%, France's 3.6% and Germany's 4%. Economists trying to explain Britain's relative sloth tend to focus on productivity—how much output you get from your inputs. In 1999, output per hour worked was 14% higher in Germany than it was in Britain, 23% higher in France and 26% higher in the United States.

Why are British workers so unproductive? The class system, say some, which has created a divide between workers and managers inimical to the co-operation that makes business work best. The education system, say others, which, born out of the nobility's scorn for trade, prizes the classics over mechanics. McKinsey tackled this question for a report published in 1998, "Driving productivity and growth in the UK". Its consultants are not paid to indulge grand cultural theories. They agreed with the Cambridge entrepreneurs that the planning system, which constrains business expansion and retards growth, is largely to blame.

Planning—not the Soviet sort that announces what growth will be for the next several decades, but the sort that says whether or not a company can build an extension to its factory—is crucial in determining what a country is like. It is the process by which governments try to balance the two most important things that make a place worth living in: beauty and economic growth. In a densely-populated country—Britain has 241 people per square kilometre, compared with 30 in America, 107 in France and 230 in Germany—planning decisions are especially hard-fought.

Compared with other small countries, such as Denmark and the Netherlands, Britain's planning system is pretty decentralised. Although appeal to the minister is allowed, most planning decisions are made by the

lowest level of local government, the district council. That is as it should be. It is the locals who have to live with planning decisions: let them make them.

But what's odd about the British system is that while councils have so much power to determine the level of growth in their area, they have little interest in fostering it. Britain's tax system is highly centralised. Some 97% of taxes are set by central government. Councils set the remaining 3%—local residential taxes, which make up 25% of their budgets. Business taxes go straight to the Treasury, which provides the other 75% of councils' budgets. The state of the local economy therefore makes little difference to local government coffers, so in the balance between growth and beauty, growth does not get much of a say. The locals who feel most strongly about planning decisions are inevitably those who live next door to a proposed development and want to stop it. The unemployed man in the next street doesn't know what he's missing if a factory never gets built.

In America, the interests of local government and local business are more closely aligned. There, states have considerable fiscal independence of central government, as cities have of states. Hence the constant competition to attract business—over the Hudson River, for instance, where New York and New Jersey battle to draw businesses away from each other with ever more attractive tax regimes.

This is not an argument for letting development rip. Britain is already a crowded island, short enough of natural beauty that it needs to look after what it has got. But the planning system needs to recognise that economic growth is a good, too. Then people can properly weigh the two in the balance, and make their choice.

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Lost in California's haze

Apr 12th 2001
From The Economist print edition

California needs boldness to get out of its electricity mess

AP

HOW long before Gray Davis becomes known as the Prince of Darkness? California's governor, who once harboured presidential ambitions, now faces an unexpected struggle to hang on to his current job at next year's election, in the wake of the state's power farce. Mr Davis, a centrist Democrat, has other political virtues to sell himself to voters; but on the issue of power, he has only himself to blame.

To be fair, Mr Davis did not cause the mess. For that, blame an earlier botched "deregulation" that first protected the two main electric utilities in California—Pacific Gas & Electric (PG&E) and Southern California Edison—from outside competitors, and then entwined them with rules of the sort that Marx, either Karl or Groucho, might have invented. Wholesale prices have been freed, forcing the utilities to buy power only on the volatile spot market, but retail rates have been frozen. The crisis has been caused chiefly by Edison's and PG&E's inability to pass on price increases to consumers.

Mr Davis has made all this much worse, first through his inaction and now, quite possibly, through his actions. The big utilities have been in trouble since last summer; consumers have been enduring blackouts for almost as long. Mr Davis's reply was to waffle—using lots of populist words, refusing to pass rate-increases on to consumers, blaming greedy out-of-state suppliers and calling for price caps in the national wholesale electricity market. Then he agreed to underwrite the utility firms' power purchases—putting off the problem.

The power of the state

Now reality has caught up. Two weeks ago, his own loyalists on the powerful California Public Utilities Commission approved a rate increase (though it tried to target businesses rather than consumers). On April 6th, PG&E, the state's biggest utility, declared formal bankruptcy. Mr Davis is now cobbling together a de facto bail-out of Southern California Edison, the state's other troubled power giant: on April 9th, the state agreed to buy the utility's transmission assets (ie, its share of the grid) for $2.8 billion—an inflated price.

The Edison deal thrusts the state squarely in the business of electricity provision. That is a step backwards, but it would be tolerable in the short term, if it accompanied a broader, long-term solution, based around addressing its three main problems: supply, bottlenecks and demand.

Thanks to a mixture of onerous environmental laws, impenetrable red tape and unco-operative neighbourhood associations, the utilities have not built new power plants for a decade even though demand has been soaring. Some power plants are expected to come on line after this summer. More are needed. Mr Davis's advocacy of price caps in the wholesale market is currently discouraging both new power-plant construction and sales of power from out of state.

Next come the bottlenecks. The state's overloaded transmission and distribution system is partly to blame for the power cuts. Its natural-gas infrastructure also has choke-points. Mr Davis could use his new part-ownership of the grid to bludgeon through upgrades, or provide incentives to others to do so. Nor has he yet done much to help "micropower". Local fuel cells and microturbines could avoid grid congestion by delivering clean power directly to the end user. But their future depends on dismantling tariff barriers, standardising interconnection rules and promoting net metering so that excess power can be sold back into the grid.

The final area any long-term solution must address is consumer demand. The utility commission's rate

hike is a step in the right direction. But the system is still skewed—not least because the new rate does not reflect either market conditions or demand. People have no incentive to turn on their washing machines in the evenings rather than at the daytime peak. Real-time metering might be unpopular. On the other hand, as Mr Davis is discovering, trying to keep everybody happy does not always work either.

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Beware of heroes

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From The Economist print edition

Faith in central banks tends to overshoot—just like stockmarkets

THE past decade has witnessed one of the biggest bull markets ever, not just in equities, but also in central banking. Never before, it seems, have central banks wielded so much power. Countries everywhere have transferred control of monetary policy from politicians to independent central banks. The newest, the European Central Bank, was designed as the most independent in the world. And as other central bankers won unprecedented power, Alan Greenspan, chairman of America's Federal Reserve, gained unprecedented kudos in the marketplace. Now the bubble in central banking may be popping, along with that in the stockmarkets.

Judged by their recent record on inflation, central banks have done a superb job, pushing inflation rates to 30-year lows. Yet the aura surrounding them is fading. For example, critics complain that the ECB lacks transparency, because it refuses to publish minutes of its meetings and details of its voting. Many also accuse it of being slow to loosen policy as the economic outlook has deteriorated. The Bank of Japan's reputation has suffered still more. It allowed deflation to persist and thereby failed in a central bank's main task: to ensure price stability. The bank, proud of its independence, ignored criticism of its policy tightening last August, but it has now been forced to reverse course by cutting interest rates again. The lesson from both Europe and Japan is that increased independence should go hand in hand with improved accountability.

It is, however, in America that the reputation of central banks faces its toughest test. Never before has one central banker been so revered by investors and the public. Until recently Mr Greenspan was lauded for his skill in steering the economy through ten years of expansion. Yet today, as share prices and the economy falter, some of his former fans have become his fiercest critics. Mr Greenspan stands accused of raising interest rates by too much last year, and of not cutting them sharply enough as the economy has slowed.

Such criticisms are wide of the mark. If the Fed deserves censure, it is for its failure to raise rates in the late 1990s, when America's stockmarket fell victim to its "irrational exuberance". The lesson is that central banks should pay attention to the prices of assets, including equities, as well as the prices of goods and services. The more that an asset-price bubble is allowed to inflate, the greater the pain when it deflates, because the associated economic imbalances—such as America's low personal saving rate and corporate overinvestment—will have become that much worse.

To be fair, Mr Greenspan himself ruminated about the risks of irrational exuberance as long ago as December 1996, but the market ignored his warning. It is also hard for a central bank to identify, let alone to know how to deal with, a bubble. Yet Mr Greenspan may have made this one worse by talking up the changes wrought by the new economy. He may be right about America's longer-term productivity gains, but by dwelling on them he also encouraged many investors to believe that the extraordinarily high level of the stockmarkets made some sense.

Heroes or villains?

If the world's big economies now move into recession, especially a bad one, demands will arise for central banks' powers to be curbed. Yet their failure to put an end to booms and busts is not a reason to return monetary policy back to the politicians. The notion that central-bank independence would cure all economic ills was always naive. Politicians, voters and markets have come to expect too much from central banks. With no reliable maps or compasses, and much statistical fog, the risk of navigational error is always high.

Mervyn King, a deputy governor of the Bank of England, argues that successful monetary policy should be boring, and not headline news. “Successful central banks should be seen as neither heroes nor villains, but simply as competent referees, allowing the game to flow.” Mr Greenspan’s predicament is that no one now sees him as merely competent.

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Third person singular

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From The Economist print edition

It's time to find substitutes for those loaded words "he" and "his". Or is it?

"IF YOU are a reader who gets their copy of *The Economist* before the weekend..." Yes, you saw it here—not first, and certainly not last, but you saw it even here (May 6th 2000). The reluctance to use the third person singular is epidemic. No one who speaks in public nowadays would dare to show that they is insensitive to gender-neutral terminology. Everyone knows they has to offend against the rules of grammar rather than the sensibilities of women. The average broadcaster, if they is English-speaking, finds it hard to use the word "he" or "his" in a general sense. The average politician, though they cares passionately about education, education, education, is even readier to tear up the rules of grammar. Even the average schoolteacher, if they exists, knows they risks trouble if they chooses to be syntactically rather than politically correct. What should be done?

Oh, come off it, whingeing pedant, you may say. If people don't like giving offence to women, that's progress: let the language take the strain. Rewrite the previous paragraph to make the verbs agree with the pronouns, and Bob's your uncle, or rather your auntie. Sticklers for correctness who cannot bring themselves to use "they" can write "he or she".

Well, you can forget the he-or-she idea for a start. It is terrible—"He or she who would valiant be 'gainst all disaster, let him or her in constancy, follow the Master"—and no one is going to keep it up for long. As for the other suggestion, that the conversational use of "they" and "their" should simply be adopted as a substitute for "he" and "his", it is going to work only if "he", "she" and "it" are abandoned completely, utterly and in all circumstances. That is not unthinkable. It has happened, except in dialect, to the words "thee", "thou" and "thy", and thereby saved English-speakers all the awkwardness of deciding when to *tutoyer* or *vouvoyer*, or its equivalent in other languages. But it is a bit radical.

All right, go back a step and revert to using "they" only when the sex of the person is unknown. But that still involves a loss of precision between singular and plural, and introduces horrible confusion with anything at all complicated. Should it, for instance, be "If you are a reader who gets their copy...and doesn't like what they see" or "If you are a reader who gets their copy...and don't like what they see"?

A possible solution would be to stay singular but go neuter, in other words, use "it". Many foreigners would be untroubled. Even the fieriest French feminists have found no need to invent the equivalent of Ms, and in languages such as German the gender of a word may have nothing to do with the sex of the creature it denotes; indeed, the gender of *Mädchen*, the German word for "girl", is neuter. But it would be hard to get used to "it". Just try, "It who would valiant be 'gainst all disaster, let it in constancy..." Or, "If your spouse has a headache at bedtime, offer it an aspirin."

Maybe then it is time for a bit of chivalry: in place of "he", adopt "she". The practice is common enough in books that give advice on babies, and causes little controversy. But babies are babies, not mummies or daddies. More and more women now disapprove of chivalry, and more and more men, applying feminist principles to their own circumstances, are also coming to see language as an extension of politics. They will complain that, in striving to cause no offence to women, the change would cause new offence to men.

All in all, it is hard not to end up with the grammarians of old, using "he" and "his" to encompass both male and female in the singular. If you're a woman, don't be insulted: just remember that gender may be unrelated to sex, even in English.

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Letters

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Bad aid

SIR—The World Bank's research finding that "aid cannot buy reform" ("Reform school", April 7th) has been known to the bank's staff for decades. Your suspicion that continued lending depends on the "ambitions of World Bank officials" is absolutely right. They have to meet arbitrary aid commitment targets determined without reference to a country's absorptive capacity. Since the 1960s, the number of developing countries requiring aid has declined substantially and most of the needy countries are in Africa and South Asia. Alas, most are ruled by corrupt cliques and collapsing administrations, so the scope for effective government-to-government aid has been sharply reduced. Attempting to pump more aid into these unfortunate countries is not in their best interests. Over the past 30 years many of them quite unnecessarily have become dependent on aid.

The only reason aid continues to flow, and has done so for the past 20 years, is the understandable wish of those in aid institutions to keep their jobs and to meet targets for aid disbursement that are determined at a political and international level. These targets, usually set for the noblest of motives, merely oblige and encourage staff to disburse funds that undermine the very reforms that are required.

GORDON BRIDGER
Guildford, Surrey

Executive churn

SIR—You fail to mention one factor that affects today's chief executive like no other: the sheer size of companies ("Churning at the top", March 17th). Many of today's multinationals are huge, not only in absolute terms but relative to recent history. The largest companies now regularly operate in more than 100 countries. Even if the CEO works a six-day week throughout the whole year, that represents only three days a year on average for each country.

Against this, top executives have to base their decisions less on direct experience and more on corporate information systems. The modern CEO is more of a bureaucrat, in the true sense of the word, than his predecessor was. And therein lies the rub. For when things go wrong what happens next is driven in large part by that bureaucracy. The CEOs that Jim Collins admires most appear to be shy insiders, best suited to managing a complex bureaucracy, not extrovert "action men", who wrench the company in a new direction but fail to get everybody to come in that direction with them.

Nation-states have endured this size problem before and have developed a system for dealing with their leaders; a free vote every four or five years, in which poor performance leads to these leaders being fired. Many of today's multinationals are as big as nation-states but are only just beginning to put together the complex series of checks and balances that impinge on governments. Now that they are catching up, expect even more churning of chief executives.

ROBERT SATCHWELL
Haarby, Denmark

SIR—Despite the many advantages of promoting from within, there is a good reason why companies often prefer to appoint a new CEO from outside. Outsiders are not steeped in a company's existing culture and values. It is relatively easy to change a company's resources and processes, but it is far harder to change a firm's values and culture. It is these two latter characteristics of a business that stand in the way of change. Prospective CEOs, free of the prevailing values and culture of a business, have a far better chance of bringing in change than insiders.

ROGER WOOLFE
Egham, Surrey

Art critic

SIR—The fuss over the images of naked children at the Saatchi gallery ("Barely sensational", March 17th) seems trivial. What is puzzling is that even though you freely admit that pictures like Tierney Gearon's appear in "family photo albums across the land", I will doubtless be labelled a philistine (rather than aesthete) because I fail to agree that they represent significant artistic merit. When in London I would actually prefer to view works by Titian, Velasquez, Picasso, etc, whose images, oddly enough, I would find impossible to reproduce at home, even after a few hours practice.

JOHN POINTON
Houston

Uncorrelated

SIR—You say that the correlation coefficient between changes in American and European share prices has risen from 0.4 to 0.8 and that this means that movements on Wall Street can now explain 80% of price movements in Europe ("Economics focus", March 24th). Apparently, you confuse the correlation coefficient with the coefficient of determination. The latter is the square of the former. Accordingly, if r=0.8 (as in your example), 64% of the total sample variation in European share prices is explained by the values of American shares and not 80%.

GUENTHER GRUNERT
Osnabrück, Germany

Waking dragon

SIR—You call China a "communist dictatorship" ("Bush's Asian challenge", March 17th). How market oriented will China have to become before it is simply a fascist dictatorship?

DAVID JOHANNSEN
Torrance, California

SIR—Your comment on George Bush's Asian challenge is clear enough: China is a hidden dragon coming out of the clouds and we little tigers had better crouch. Still, good fences make good neighbours. I would argue for a better defended Taiwan.

JACK CHENG
Moscow

Ruling principle

SIR—Tony Blair's discovery of necessity as a ruling principle is a reminder of the insidious ways in which unchallenged power affects those who wield it ("Tony and the absolute", March 24th). Utilitarianism may not be exactly synonymous with democracy but it is quite close. Necessity, on the other hand, is anathema to democracy. Mr Blair would do well to heed one of his predecessors, William Pitt the Younger, who said, "Necessity is the plea for every infringement of human freedom: it is the argument of tyrants; it is the creed of slaves."

KHURRAM DASTGIR-KHAN
Gujranwala, Pakistan

Shakespearean

SIR—Your obituary of Robert Ludlum (March 31st), with its mention of his penchant for three-word titles of a certain style, reminds me of a quip attributed (I think) to Salman Rushdie: had Ludlum written "Hamlet" he would have titled it, "The Elsinore Equivocation".

IAN PETRIE

Philadelphia

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Economist.com SPECIAL

America's next ethical war

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Politicians and regulators in America are floundering as they try to understand the immense implications of genetic science. The first human clone could mark a turning-point in man's story

IF YOU are looking for certainty in ethical politics, there are few better places to find it than the annual "March for Life" in Washington, DC, to protest against *Roe v Wade*, the 1973 Supreme Court ruling that legalised abortion. Every hymn, prayer and speech repeats the message: abortion is an evil that must be stopped. Protesters wave a series of ghoulish placards showing bloody fetuses clasping quarter-dollar coins: "Yes to the human treatment of animals. No to the animalistic treatment of humans."

In most other countries, politicians are seldom asked about their views on abortion. In America it is a litmus test, with both sides showing equal intolerance of dissent. Now this bitter, familiar battlefield is being extended and confused by genetic politics, and at breathtaking speed.

America has grown some 3.5 trillion genetically modified plants since 1994. The reading of the human genome has been completed. Patents have been granted, linked to individual human genes. The first court cases against companies using genetic information to discriminate against employees have begun.

Cloning is also forcing itself into the news. Americans are already queuing up to freeze the DNA of their dead loved ones (including pets and racehorses, the latter for $895 plus $100 a year for storage). The underground movement to clone human beings is starting to surface; an American professor and an Italian doctor announced their plans in March. The Raelians, a slightly weird but rich and scientifically sophisticated sect from Canada, are trying to "recreate" a dead child at a secret location in the United States.

Scientists tend to get pernickety about putting all these things together. There are different timetables to consider: stem-cell research, for instance, is already under way; genetically modifying human character traits is a distant project. There is a difference between purely reproductive technologies, such as *in vitro* fertilisation (IVF), and genetic technologies, which try to change the shape of future organisms.

All true, but for most non-scientists these things all seem to involve fiddling around with nature to a greater or lesser extent. And, taken together, they prompt a whole series of perplexing ethical questions that will affect politics everywhere.

America is likely to be their most important battleground, for several reasons. First, it has the most advanced biotech industry. Second, some of these ethical questions overlap with the tortured abortion debate. Third, Americans have always leapt at perfectionist fads, whether plastic surgery or playing Mozart to educate babies in the womb. Fourth, America's legalistic culture makes the ethical fudges that are common in Europe very difficult. And, fifth, despite all these things, American politicians and regulators seem almost completely unprepared for what is about to hit them.

Mention genetics to most politicians in Washington, and they assume that you are talking about an industry, not a political issue. Unlike their peers in Europe, they have faced no furore over genetically modified foods. Asked for his views on cloning and gene patents, a Republican senator often mentioned as presidential material waffles for a while, then asks his aide to help him out. She can't remember either.

Legislative confusion

Even the abortion marchers in Washington seem a little less certain. Asked about the use of embryos in stem-cell research, two ladies from Missouri Right to Life appear opposed to it. They also dislike cloning, and they seem a little nervous about genetically modified food. ("It's not natural, either.") Did they know that their senator, Kit Bond, a fervent anti-abortion Republican, is, strangely enough, a leading supporter of GM foods? No, "but he's a good Christian man."

So far, the debate about genetic research has largely been a private academic squabble. Most of the running has been made by enthusiastic scientists who expect you to know what single nucleotide polymorphisms are. The sceptics are a ragbag of unlikely allies: a few academic political theorists, the Roman Catholic church, some anti-abortion zealots, the anti-globalisation brigade and a few mavericks (one American writer, Jeremy Rifkin, is working on a multilateral "Treaty to Protect the Genetic Common").

A good guide to the infancy of "biopolitics" is provided by Leon Kass, an ethicist at the University of Chicago. First, he cannot name any national politician who understands the subject. And, second, experience has taught him that his side (he is one of the leading sceptics) will always lose: it is fighting "against an enormous amount of money, against the general liberal prejudice that it is wrong to stop people doing something and, in many cases, against everybody's quite rational fear of death".

These two observations are linked. Congress has generally stayed almost entirely clear of baby-making technology. A National Bioethics Advisory Commission gives advice to the president, but there is no formal overseer of the subject such as Britain's Human Fertilisation and Embryology Authority (HFEA). The Food and Drug Administration (FDA) decides whether a particular machine or medicine is safe, but says nothing explicit about the ethics of using it.

To the extent that limits have been put on the genetics industry, these have often been self-imposed. In the 1980s, Monsanto famously dictated the rules for the young GM foods industry. Since 1975, various peer groups of academic scientists have laid down unofficial guidelines. In practice, the various industries gathered around human reproduction have been shaped by its customers—particularly infertile couples trying to have babies.

Jeffrey Kahn, a bioethicist at the University of Minnesota, points out that politics and the law always tend to react to science, not guide it. Self-regulation has also produced few disasters. But will laisser-faire last? Regardless of which side you are on in the various arguments about genetics, the current non-debate has the makings of a political disaster. First, because such life-and-death issues need to be debated. And, second, because Americans are probably nervous about letting the scientists have their way.

The largely academic debate so far has produced no clear left-right split. As it seeps into party politics it may cross party lines more viciously than abortion. Among Democrats, it may well widen the gap between leftish supporters of Ralph Nader and more business-minded third-way New Democrats. Among Republicans, conservative fundamentalists will clash not just with libertarians but also with the party's bedrock—big business. On genetics, the anti-abortion movement's real enemy is not feminists, but the Department of Commerce.

The battlefield ahead

As you might have expected, the only biotechnology issue that has really impinged on Capitol Hill is one that is linked to abortion: stem-cell research. Congress has banned the use of federal money to pay for stem-cell research that involves destroying a human embryo. Under Bill Clinton, the National Institutes of Health (NIH) got round this law on a slightly dodgy technicality, supporting stem-cell researchers so long as the researchers themselves did not extract the cells from the embryo.

The new overseer of the NIH is Tommy Thompson, the secretary of health and human services. Mr Thompson opposes abortion, but he supported stem-cell research in his native Wisconsin (something that split the Right to Life movement over his nomination). Several other Republican anti-abortion leaders, including Senators Gordon Smith and Strom Thurmond, also support stem-cell research. They have reasons. Mr Smith's family has suffered from Parkinson's disease. "Strom came round partly because he has a daughter with diabetes," says Arlen Specter, a Republican.

On the campaign trail last year George Bush hinted to anti-abortion activists that he would ban stem-cell research. Business and scientists reply that even the Clintonian regime puts them at a disadvantage. In

Britain, Parliament, advised by the HFEA, has allowed “therapeutic cloning” of embryos to harvest more stem cells (though the embryos can last only 14 days). Mr Bush’s team recently said it would put off a decision until the summer, citing “a complex question of ethics and the promise of science”.

The abortion debate also affects the tussle over pre-birth genetic screening. This is not new; a Jewish committee in New York that is concerned to prevent genetic disease organises tests to discourage Ashkenazi Jews who carry the Tay-Sachs mutation from marrying each other. But it went further last year, with the specific selection of “Baby Adam”, from among 15 healthy embryos, because he had the right bone marrow to help his sister, who had a rare disease.

Such selection would have been illegal in Britain. In the United States, it was not even in the regulator’s province, because there was no public money involved. Technically, the FDA can poke its nose into things if private-sector doctors use federally approved drugs (this happened with Oregon’s euthanasia law). But in general, as Mr Kahn bluntly puts it, the state’s attitude is that “capitalistic acts between consenting adults are none of its business.” This has also been the prevailing attitude to animal cloning and the IVF industry.

The Baby Adam case also touched on the re-emergence of eugenics. In America as in Europe, this word has an unpleasant history. In the early 20th century, more than 100,000 Americans were the victims of compulsory sterilisation laws. In 1927, the Supreme Court upheld Virginia’s eugenics law, enforcing the sterilisation of Carrie Buck, who lived in a colony for epileptics with her mother and her six-month-old daughter. “Three generations of imbeciles is enough,” Justice Oliver Wendell Holmes bleakly explained.

Eugenics revisited

Many people now argue that science is allowing a healthier, non-coercive version of eugenics, practised by caring parents as opposed to a racist state. Ronald Dworkin, arguably America’s leading leftish legal theorist, supports the idea on the basis that the full potential of a life should be realised. Matt Ridley, the author of “Genome” (HarperCollins, 2000) and a former writer on *The Economist*, argues that genetically modifying a fertilised egg to fix, say, the gene mutation that causes Huntington’s disease is surely preferable to aborting the fetus or allowing the baby to be born with the disease.

For many people, the difficulties come when biotechnology leaps from stopping disease to adding advantages—enhancing the genes that make you more intelligent, more musical or less homosexual (as it may yet do: it can’t at present). Such “re-engineering of the human species” worries William Galston, a leading figure on the Democrat Leadership Council and a professor at the University of Maryland: “The species should be how we are, not how we might be.” In “Remaking Eden” (Hearst, 1997), Lee Silver, a Princeton biologist, foresees a two-class system, with rich, genetically enhanced “GenRich” lording it over poorer, inferior “Naturals”.

The sex of children is already up for sale. “Microsort”, a process offered by the Genetics and IVF Institute in Fairfax, Virginia, separates male from female sperm. It is particularly successful at producing girls (because X-chromosome sperm are easier to mark). At first, the institute helped couples with hereditary diseases that tend to occur in boys. Now it offers “family balancing” to couples who want to choose their next child from “the under-represented gender”.

The institute treats around 60 couples a month, who pay around $3,000 a go; it plans to double production soon. Looking at surveys showing that around one in four American couples might use sex-selection, *Fortune* recently calculated that the market could be worth $200m a year. Some of this money may go to the government, since the Microsort process is based on a Department of Agriculture invention. But the government’s regulatory input is fairly minimal.

Much of Americans’ unease with new genetic research stems from the feeling that big business, or the government, may thereby gain more control over their bodies. As long ago as 1995, Mr Rifkin organised a coalition against patents on human genes that included virtually all the main churches. For religious leaders, human bodies are God’s property, not man’s. For leftish anti-corporate types, the idea of big drug firms patenting bits of bodies is another example of the evils of “Big Pharma”. Genetic information is not something that you invent; it belongs to society, not companies.

Drug firms reply that they need some payback for all their research. The system grants patents only when advances are original, non-obvious and useful. It also means that discoveries are made public. The American patent office has issued about 1,000 patents to companies that have identified genes producing

specific proteins. Tens of thousands of human gene patents are pending. Now it is apparently being less generous.

As more and more is publicly revealed about the genetic composition of humans, so people cling to the notion that their own genetic make-up should be private. Recently, a long-simmering debate about genetic privacy broke out at Burlington Northern. The railway company had taken blood samples from employees who filed claims for carpal-tunnel injuries, hoping apparently to find out whether they had a genetic disposition to such ailments. The rail workers' union sued, backed by the Equal Employment Opportunity Commission, claiming the railway had violated the Americans with Disabilities Act.

Only around one in a hundred Americans has a genetic test in any given year. Federal employees are already explicitly protected against genetic discrimination. Private-sector employees have no federal protection, but 18 states now have laws that limit life-insurers' ability to use genetic tests to reveal people's susceptibility to diseases. This is odd, since they are allowed to discriminate on the basis of the gene that is most closely linked to specific diseases and shorter life-spans, the SRY gene that makes people male.

Consumers would like more limits on genetic testing; but insurers fret that these laws could put them out of business. As Lehman Brothers recently warned investors, there is nothing to stop people, having discovered that they have inherited the gene that causes Huntington's disease, going out and loading up with insurance. In Britain, people who have such tests have to share the information with their insurers. But the United States has no such law.

Of all the aspects of genetic research, none is more controversial than human cloning. Although this still lies in the future, the technique has already succeeded in mammals and is fairly simple. In January, Panos Zavos, a professor at the University of Kentucky, announced plans to clone a human being, working with Severino Antinori, an Italian doctor best-known for helping post-menopausal women to get pregnant.

Cloning and its enemies

In November, the ethics committee of the American Society of Reproductive Medicine said that cloning for fertility treatment "did not meet standards of ethical acceptability." Last month, scientists who have conducted animal cloning testified to a congressional subcommittee that human cloning could involve hundreds of failures. Yet it is not clear what deterrent exists to groups, like the Raelians, that have teams of surrogate mothers ready to try.

In the wake of the cloning of Dolly the sheep, Bill Clinton announced a moratorium on human reproductive cloning in March 1997. In fact, this only stops federal money going to help the process. A mere five states—California, Louisiana, Missouri, Michigan and Rhode Island—actually have laws banning reproductive cloning (either temporarily or permanently), though Texas is thinking about one.

When Bill Clinton issued his order, Senator Tom Harkin rather magnificently told the president to "take your ranks alongside Pope Paul V, who in 1616 tried to stop Galileo." Mr Harkin aside, most American politicians claim to be against cloning, but they are also nervous about restraining their genetics industry. In Dolly's wake, Congress tried half-heartedly to pass an anti-cloning bill, but failed to work out a law that would satisfy both the anti-abortion camp and the drug firms. Bill Frist, a Republican senator from Tennessee, who sponsored one of the failed attempts, says he has no plans to try again.

A poll last month by *Time*/CNN found that 67% of people thought that animal cloning was "a bad idea"; 90% opposed human cloning. There were strong majorities even against cloning to produce vital organs to save others (68%) and to help infertile parents to have children (76%). But if you go to a website such as that of the Human Cloning Foundation, the demand for cloning is obvious. It comes from people desperate to bring back a dead sibling, from homosexuals anxious to reproduce, and most of all from America's 3.5m "infertile" couples, those who have been trying to have a child for a year, but still cannot conceive.

Searching for an answer

Most of these debates come down to a fundamental division of opinion: between seeing human life in

terms of its intrinsic value, or in terms of its utilitarian value. A gene is either life itself, or just a useful piece of kit. Some people on the left regard it as part of a growing war between commerce and culture.

The truth is that such clarity comes only at the extremes. The Roman Catholic church tends to oppose most of the controversial things in reproductive science (though that did not stop 160 of its bishops meeting in Irving, Texas, last month to debate the subject). The Raelians seem pretty enthusiastic about everything. But most people, including most politicians, are stuck in the middle.

Adam Wolfson, who wrote a much-cited piece in *Public Interest* trying to place genetic research within traditional conservative and liberal thought, may come closest to the truth when he argues that the underlying question is usually one of dignity, rather than right or wrong. The University of Maryland's Mr Galston predicts that genetic science will end up in the Supreme Court—not as one issue, but as a series of small cases that will together set a limit for what society will tolerate in the field.

Those judges may be swayed by public opinion (and the presidents who appoint them certainly will be). A good bet is that attitudes to genetic research will be defined by the first human clone. If a cloned baby were to be born with terrible abnormalities, the public outcry against genetic research could be immense, and bans could be imposed on several fronts. On the other hand, if a totally healthy cloned child appears, then quite possibly every fertility clinic in the country will begin to offer the technique.

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Beyond Hainan

Apr 12th 2001 | BEIJING AND WASHINGTON, DC
From The Economist print edition

The apparent agreement about that collision over the South China Sea still leaves question-marks over relations with Beijing

"SORRY" has seldom seemed a more difficult word to define. As the elements of a compromise seemed to come together to end the stand-off over the 24 Americans held on China's Hainan Island, dictionaries seem to have played a crucial role in providing the clinching nuance that could allow the world's strongest power and its most prickly would-be rival to put the whole dangerous business behind them.

AP

Demanding but diplomatic

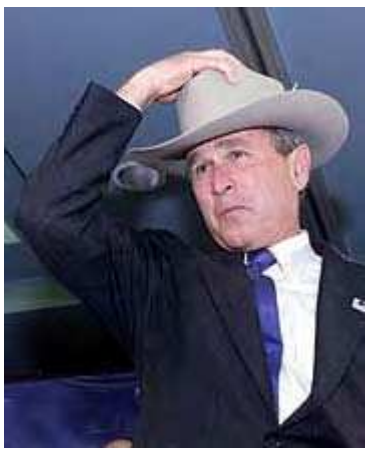
On April 11th, after days of getting nowhere, China announced that in its view America had apologised for the mid-air collision that left a Chinese fighter pilot presumed dead and an American surveillance aircraft badly damaged, and being methodically strip-searched, on a Chinese military airstrip. After appropriate formalities, the crew can go home (although this still relies on "sufficient" American co-operation). The aircraft's fate is uncertain. There will also be a meeting on April 18th to discuss how to avoid such incidents in future.

For their part, the Americans still adamantly deny any guilt in the affair (something the Chinese inadvertently acknowledged by calling on the United States to take full responsibility for the incident). But by increasing American regret from "sorry" to "very sorry" in a letter to the Chinese authorities, the Bush administration seems to have found a face-saving way out of the crisis for both sides.

Given the divisions inside China's leadership, there is always a chance that the deal may fall apart. The talk about the need for sufficient co-operation may prove ominous. But a deal is plainly in China's interests.

Earlier, George Bush had pointedly reminded China that, though diplomacy takes time, "the longer it goes on, there's a point at which our relations with China could become damaged." China's officials, from President Jiang Zemin down, had brushed aside the "regret" expressed by Colin Powell, Mr Bush's secretary of state. Mr Powell's subsequent readiness to admit that America was "sorry" that a life was lost had been almost enough. Adding the word "very", and broadening the regret to cover the American aircraft's landing at Hainan without China's permission, apparently did the trick.

Reuters



Sorrowful but strong

Although the crew of the American plane cannot be questioned until they are out of China's earshot, what American officials have been able to piece together about the accident suggests that, contrary to China's always implausible version of events (that the much slower, propeller-driven American aircraft rammed the nimbler Chinese jet), it was the Chinese pilot who clipped the American plane in a misjudged attempt to disrupt its work.

Much though China dislikes America's surveillance flights in international airspace off its coast, they are not illegal. And, though some comments from Chinese military people have suggested that the American pilot might be charged with violating China's airspace after the collision, he in fact followed accepted international rules: after issuing a distress call, he tried several times using emergency frequencies to contact the Chinese airfield for permission to make an emergency landing, but got no response.

In theory, the two countries can now sit down to work out ways of avoiding such mishaps in the air in future, rather as they did in 1998 to avoid such incidents at sea. A deal also seems to provide Mr Bush with a foreign-policy success of sorts.

When time has its price

Mr Bush had pleased most Americans by his measured handling of the crisis. But, as the 24 airmen and women went into their second week as “detainees”, the word preferred by Vice-President Dick Cheney (“hostages”, according to Henry Hyde, chairman of the House International Relations Committee, and, opinion polls suggested, a growing number of ordinary Americans), Mr Bush was plainly running out of time.

So were the Chinese. Congress returns from its Easter recess on April 23rd. Without a deal, China would have been in the firing line. Even with one, it faces a rough time.

Because China has dragged its feet on the requirements set last year for its entry into the World Trade Organisation, a continuation of normal trade with America—worth maybe over $100 billion a year—requires a vote in Congress by June or July. A more immediate problem is Taiwan.

Mr Bush is obliged to tell Congress later this month which weapons he proposes to let Taiwan buy in order to go on being able to defend itself against China, including the steadily growing Chinese missile force pointed at the island. The Republican right has been pressing him to sell warships equipped with top-of-the-range Aegis battle-management radars. China has lobbied equally hard against Aegis, which it fears will one day put Taiwan under the protection of an American anti-missile system.

There are, in fact, good grounds for not selling Aegis to Taiwan this year: the system could not be delivered for a number of years, and it is not at all clear that Taiwan’s armed forces can yet use it efficiently. Holding off on the sale this time round would give Mr Bush some negotiating room to try to explore the possibility of reciprocal restraint. But Congress also has a say in the matter and, even if the 24 Americans return home soon, it may insist on much tighter military bonds with Taiwan.

China’s diplomats seem quite aware of what is at stake. In 1999, the authorities bused in demonstrators to hurl stones at the American embassy in Beijing after NATO’s bombing of the Chinese embassy in Belgrade. This time anti-American abuse has mostly been limited to Internet chat-rooms. Yet the collision over the South China Sea has revealed a worrying trend in China’s rivalry with America in the region. And increasingly it seems to be not China’s diplomats, but its generals, who control events.

In the past, although China has publicly resented American influence in East Asia, privately it has acknowledged that America’s military presence has helped to calm the intersecting rivalries between itself, Japan and Russia. That is now changing.

Particularly in the areas it asserts are its own, including just about all of the South China Sea and the Taiwan Strait, China has become much more aggressive. Although the fighter lost this time was a home-built one, China has been steadily acquiring much more sophisticated aircraft and submarines from Russia to extend the regional reach and lethality of its armed forces. In 1994, when an American aircraft carrier, *Kitty Hawk*, was involved in a tense three-day stand-off with a Chinese submarine in the Yellow Sea, both sides played down the incident. This time China’s generals have ratcheted up the tension.

So are American-Chinese relations on a downward spiral? Senior State Department officials insist that they want to help China’s adaptation to the modern world in matters of trade and nuclear non-proliferation and human rights; and that they will go on trying. But, even if the aircrew comes home, the worry remains that the emerging China is a pugnacious, not-so-modern power bent on some pretty old-fashioned push and shove.

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Payback time for the Miami Cubans?

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IF DEALING with China has proved a frustrating business for the Bush administration, will it take out those frustrations on another socialist paradise? Cuba is much closer, far smaller and just as loathed by many Republicans—particularly the Cuban exiles in Miami who claim that they won the White House for George Bush. Their goal is to strengthen their country's 40-year-old trade embargo on Cuba, which Bill Clinton (here, as with China, "the great appeaser") tried to relax.

AP

Most Reviled Neighbour

Mr Bush has kept his own views about Cuba slightly vague. But both Colin Powell, his secretary of state, and Condoleezza Rice, the head of the National Security Council, have said that they support the embargo. Otto Reich, a controversial Cuban-American lobbyist whom Mr Bush has chosen for the top Latin American post at the State Department, is one of its toughest supporters.

The leaders of the Cuban-American exiles, after eight years of being virtually shut out of the White House, have high hopes. By turning out en masse for Mr Bush, they helped cut the Democrats' margin of victory in Miami-Dade County to only 40,000 votes, down from 110,000 in 1996. They want something in return.

Jeb Bush, Florida's governor and George's brother, is also counting on Cuban-American support. He faces re-election next year. With Democrats expected to campaign heavily in the Jewish and black communities where dimpled ballots may not have been counted in November's election, Latinos could be Jeb's salvation. According to the latest census, they have now passed blacks as Florida's largest minority, making up 17% of the state's population. In Miami-Dade County, that rises to 57%; about half of them are Cubans.

Liberal Democrats in the Senate say they will fight Mr Reich's nomination as assistant secretary of state for western hemispheric affairs. They object to him not only over Cuba but because of events in his past. From 1983 to 1986, Mr Reich headed the State Department's now defunct Office of Public Diplomacy for Latin America and the Caribbean. He got marginally caught up in the Iran-contra scandal when his office was accused of engaging in covert propaganda activities to get Americans' support for the Nicaraguan contras.

As a lobbyist, Mr Reich has also worked for Bacardi, the exiled Cuban rum company that is still fighting Cuba over confiscation of its properties after the 1959 revolution. Mr Reich helped draw up the 1996 Helms-Burton law that strengthened American sanctions against foreign companies doing business with confiscated assets in Cuba, among them Bacardi's competitors. Strict implementation of the Helms-Burton law—which President Clinton waived in part—could reopen old rifts with allies in Europe and Latin America, which strongly oppose the law's extraterritorial reach.

Mr Reich will also come under pressure to do two things the exiles particularly want: to indict Fidel Castro for the shooting down in 1996 of two light aircraft piloted by Miami exiles, and to provide more money to boost the signal of TV Marti, a struggling outfit that beams Spanish-language propaganda to a largely deaf Cuba.

But even Mr Reich may be unable to give the exiles full satisfaction. In recent years, increasing numbers of conservative Republicans have turned against the Cuban embargo because, they believe, it hurts America's own interests. Ever since the farm crisis of the mid-1980s, Republicans in grain states have formed a rare alliance with liberal Democrats in Congress to loosen the embargo. Last October, Congress agreed to lift the ban on the sale of food to Cuba. Further challenges to the embargo are expected in Congress soon.

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The budget

Wartime

Apr 12th 2001
From The Economist print edition

SO THE real battle begins. This week George Bush finally released his budget plans. Now he has to persuade Congress to accept them. Changes in funding for specific programmes—particularly education—are sure to provoke a few heated skirmishes. But the pivotal battle will be over the total pace of spending during the next decade. The fiercest opposition to Mr Bush's plan will come in the Senate.

The most controversial part of Mr Bush's much-touted efforts to revitalise education aims to involve charities and churches. Mr Bush wants to spend $913m on before- and after-school programmes connected with "faith-based" organisations. This item, included under the heading "Champion Compassionate Conservatism" in the budget proposal, promises to spark a legal fight over the separation of church and state that will probably end in the Supreme Court.

The president's budget allots the states $472m to change the structure of public education by promoting school choice and voucher systems (a worthy suggestion, but one that is unlikely to get through the Senate). In addition, he has earmarked $429m to assess the quality of learning. Three-quarters of that would go directly to the states. The idea is to encourage new strategies for improving education. The main problem is that Mr Bush is also allowing the states to set their own standards and rate their own performance: the fox is guarding the henhouse.

Though Mr Bush's budget has its generous moments—$2.8 billion for the National Institutes of Health here, $1 billion for university tuition grants there—it does take big bites from some departments. Transportation, the only department headed by a Democrat, lost the most, with 11.4% in discretionary spending erased. Agriculture would come second with a loss of 7.3%, but Congress is unlikely to stand for such a deep cut.

Discretionary spending will be a sticky issue in general. To defend his tax cut, Mr Bush wants to restrict its growth to just 4% a year over the next decade. By contrast, the Senate has asked for a hike of almost 8% per year. If the Senate wins, spending will exceed Mr Bush's current projections by more than $1.7 trillion over the next ten years—an amount greater than the whole of his treasured tax cut.

The details of that tax cut, combined with the likelihood that the budget battle will drag on well into the summer, make it clearer than ever that there will be no fiscal stimulus in the short term. Even if Mr Bush manages to conquer opposition in the Senate, tax cuts in 2002 will amount to only $29 billion. The reductions in taxes on personal income and estates are strongly back-loaded; receipts would fall by the same amount in 2010-11 as in the whole of 2002-06.

By 2011 Mr Bush's budget plans could be nothing but a distant memory. The risk meanwhile is that a nasty battle over income and estate taxes could eat into the political capital the president might have used to push for cuts in taxes on capital gains and corporate income, which Republican supporters are also demanding. Such tax breaks might have encouraged saving—and saving will be more crucial than ever during the next two decades.

The other lesson that emerges from Mr Bush's budget is the need to reform America's big entitlement programmes. The country will return to budget deficits—big ones, too—unless the federal government undertakes a complete overhaul of Medicare and Social Security.

Mr Bush promised reform during the campaign. His budget sets up committees to study how these programmes, both of which will be bankrupt by 2016, might be restructured. Studying the problem some more won't make it go away. On the other hand, Mr Bush will have left Washington long before the bills fall due. From his point of view, a delay is as good as a cure.

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Lexington

All shall have prizes

Apr 12th 2001
From The Economist print edition

EVERY so often academic squabbles are worth treating as more than just up-market versions of “The Jerry Springer Show”. Harvard University is having exactly such a squabble at the moment. The instigator is Harvey C. Mansfield, a political philosopher whose soft-spoken manner belies a taste for public controversy; the subject is the rampant grade-inflation under which so many American students now take it for granted that they will be given an A for work that 20 years ago would have got a C; and the debate he has set off is challenging the cloying culture of self-esteem that stretches well beyond Harvard.

The whole thing started when Mr Mansfield, whose tough grades earned him the nickname “C-minus”, declared that he was no longer willing to punish his students by giving them realistic grades. Henceforward he would give them two grades: an “ironic” grade that would go on their official records, and a realistic grade that he would reveal to them only in private. In this way Harvard students could enjoy the challenge of measuring themselves against real standards without having their gleaming resumés sullied.

“Ironic” is a gentle word for Harvard’s grading system. About half of Harvard’s students get an A-minus or above. Only 6% receive a C-plus or lower. Some Harvard apologists justify this inflated system on the ground that their university selects the best and brightest. But aren’t grades supposed to establish relative merits? Aren’t “elite” institutions supposed to measure people against the highest possible standards? And aren’t serious teachers supposed to point out their pupils’ weaknesses as well as their strengths?

None of this would matter if Harvard were alone in taking the name of excellence in vain. But grade-inflation is almost universal in American education. Outstanding students are compared with Einstein. Abject failures are praised as “differently abled”. Even the hard sciences have started diluting their standards in order to compete with the humanities, where cheating is so much easier.

Why have academics allowed their standards to become so debased? Mr Mansfield provoked an outcry when he put some of the blame on affirmative action, the policy of providing places to some people on the basis of their race. University administrators accused him of making “divisive” charges without a “shred of evidence” to back them up. The divisive bit is certainly true, but Mr Mansfield could hardly provide the proof when the university administration keeps the relevant student transcripts under lock and key. He was simply relying on the only tools at his disposal: personal experience (he has been on the Harvard faculty since 1962) and circumstantial evidence: grade-inflation followed the introduction of affirmative action.

The debate about affirmative action is arguably a red herring. Three less controversial but much more pernicious things probably matter more. The first is the cult of self-esteem. For years fashionable educators have been arguing that the worst thing you can do to young people is to damage their sensitive egos with criticism. “If a child lives with criticism, he learns to condemn,” goes a popular screed handed out to the parents of pre-schoolers. “If a child lives with praise, he learns to appreciate; if a child lives with approval, he learns to like himself.”

This might be defensible when applied to the kindergarten. The trouble is that this therapeutic philosophy is spreading throughout the educational system. The idea is at the heart of “constructivist maths”, which emphasises the importance of feeling good about maths, rather than mastering basic techniques. It is at the heart of “Ebonics”, which argues that black children should not be penalised for adopting “black speech patterns”. And it is at the heart of the “I love me” sessions that proliferate in American elementary schools, in which children complete the phrase “I am...” with words such as “beautiful”, “lovable” and “great”, when “spoilt”, “bored” and “violent” often seem more accurate.

Resisting this claptrap is made no easier by the fact that so many leftish university professors routinely

argue that traditional standards are little more than tools of western oppression. But the second mighty force behind grade inflation is something conservatives normally praise: the marketplace.

American universities are big businesses which can charge students in excess of $20,000 a year for the privilege of attending them. Students naturally gravitate towards institutions that are going to give them a return on their investment—the sparkling academic resumé that opens the doors to Wall Street banks or prestigious law firms. Professors who resist the demand for grade-inflation may find themselves embarrassed by empty classrooms. Student course guides provide plenty of details about how generously teachers grade.

The third force is the lack of interest that high-flying academics show in the humdrum business of teaching. People who care a great deal about something are obsessed with making precise judgments of quality: listen to the average sports fan, for example. But the road to success in modern academia lies through research rather than teaching. All too many academics are content to hand out A-grades like confetti in return for favourable teaching ratings and more time to devote to research.

Fixing grade-inflation will not be easy in a system in which professors rightly value their autonomy. On the other hand, there are some signs of change. Graduate schools such as Harvard's Business School have manfully maintained their use of a rigorous grading curve. Some universities have experimented with putting two grades on report cards—the individual student's grade and the average grade for the class as a whole.

But perhaps the simplest argument for Mr Mansfield's cause is that anybody who has ever been well taught knows that he is right. People who work under demanding taskmasters usually learn to respect them. People who are coddled with unearned A-grades despise the system they are exploiting. Living on a diet of junk grades is like living on a diet of junk food. You swell up out of all decent proportions without ever getting any real nourishment. And you end up in later life regretting your disgusting habits.

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Energy shortage

The leaky bucket

Apr 12th 2001 | SAN FRANCISCO AND WASHINGTON, DC
From The Economist print edition

It is hard to tell who currently has the least coherent energy policy: Gray Davis or George Bush

Get article background

Reuters

Balance of power needed

THE United States is stuck in the middle of two very different "energy crises". The first, much hyped by the Bush administration, is a national affair, stretching across many different fuels, where the country as a whole is direly in need of a comprehensive energy policy. The second is a largely Californian, purely electric affair, centred around rate hikes, black-outs and the perilous condition of the state's two main electric utilities. Both crises stumbled forward this week—though to what end is not clear.

California's problems stem from a flawed attempt to "deregulate" its electricity market five years ago. Its two main utilities, Pacific Gas & Electric (PG&E) and Southern California Edison, buy power in (the pricey) wholesale spot market but sell it at a much lower fixed rate to consumers. To bail them out, California's governor, Gray Davis, has committed the state to underwrite their electricity purchases, whilst condemning the out-of-state power providers for making profits.

Two weeks ago, the state's Public Utilities Commission raised rates by more than 40% (mainly for business customers). On April 5th, Mr Davis admitted that consumers would be hurt too. He had tried to deflect the increases away from voters (he is up for re-election next year). The next day, PG&E, the state's largest utility, serving its northern half, filed for Chapter 11 of America's bankruptcy law (see article).

Mr Davis, who had been negotiating with PG&E and Edison to buy their transmission lines (as a way of injecting some cash into the firms in return for keeping rates down), promptly lambasted PG&E. But he redoubled his efforts with Edison: on April 9th, it agreed to sell its part of the transmission grid to the state for $2.8 billion, to use its generators to provide cheap power to the state for ten years and to drop a lawsuit trying to force an increase in the rates.

Mr Davis's position looks increasingly unhealthy. Less than half a grid hardly gives him the control he sought. Some of his fellow Democrats want him to follow up his own rhetoric by simply commandeering some of the independent power stations around the state. Mr Davis's own favourite option seems to centre on persuading the federal government to support "temporary" price caps in the wholesale market.

That looks unlikely. Curtis Hébert, the head of the Federal Energy Regulatory Commission, is an avid free marketeer who rejects the notion of price caps on the wholesale market. George Bush has little interest in helping Mr Davis (who would like to run against the president in 2004). The president has made it clear that he believes that California's problems are best solved by Californians themselves.

All very statesmanlike and economically liberal. In fact, in an eerie re-run of Mr Davis's initial grandstanding, the president is trying to skew the Californian mess to his own advantage. The fault, he implies, is not because of any of the above causes, but because America is in the grip of an energy crisis. To that end, Dick Cheney, the vice-president, is in charge of a cabinet task-force that has been beavering away for weeks developing a "comprehensive energy policy" that will be presented to Mr Bush in May.

The main themes of this review are already clear. America supposedly has a massive shortage of electricity, natural gas and oil. The answer is not just more energy, but more American energy. To help the country toward energy "independence", Mr Bush is pushing for oil and gas exploration in the pristine

wilds of Alaska and other protected areas. Recently, Mr Cheney said that he intends to encourage new nuclear plants to help the nation out of its supposed crisis.

The premise that America has an energy crisis makes no more sense than the Californian Democrats' railings against the free market. Just last week, the government's own Energy Information Administration issued a report suggesting that summer gasoline prices will fall from last year's levels, that oil refinery output is set to rise, that natural gas prices have moderated and confirming that heating oil stocks are 11% higher than last year at this time. There is no embargo by a hostile cartel, no war or revolution disrupting supplies and plenty of supplies of oil and natural gas for the moment.

A more truthful verdict would be that America does have an energy-infrastructure problem. Red tape, environmental laws and hostile home-owners all make it difficult to build new refineries, pipelines, power plants or any other essential bit of the energy network. Partly as a result, reserve capacity in such sectors as electricity, natural gas and gasoline are low by historical measures. The Cheney task-force has hinted that it will look into ways to make building or expanding such infrastructure easier.

But that still leaves the question of which industries should get which incentives. The suspicion is that Mr Bush will automatically favour Big Oil. Last month, Spencer Abraham, the energy secretary, gave a surprising speech in which he sought to debunk all the talk of favouritism to fossil-fuel lobbies. Instead, insisted Mr Abraham, his energy policy would be market-based.

Mr Cheney's nuclear option hardly bolstered this idea. America has not built any nuclear plants in two decades. Left to its own devices, the market would not build one today either. A new nuclear programme would require massive subsidies.

Mr Bush's budget, released this week, also makes a mockery of Mr Abraham's claims. It calls for the Energy Department's core solar, wind and other renewable energy programmes to be cut by more than half to $186m. The department's efficiency-research programmes would also be cut—with the sharpest cuts falling on efforts to help industry reduce its use of power. Energy efficiency standards are also being suspended. Such rules are hated by industry, but Bill Richardson, Mr Clinton's energy secretary, reckons that more efficient air conditioners, washing machines, refrigerators and so on could save $27 billion over the next 30 years.

Big Oil, big mess

Perhaps most predictably of all, overall spending on fossil fuels is to rise slightly. Incredibly, Mr Abraham's budget calls for adding a hefty $150m in funding to research into so-called "clean coal"—an oxymoron by any measure. The General Accounting Office recently condemned the Clean Coal programme for wasting taxpayers' money.

Mr Abraham defended the cuts by arguing that conservation and efficiency programmes are wasteful, and have not yielded results that can be applied in the marketplace. As evidence that the administration is not "pro-oil", he cites its willingness to get rid of Petroleum Vision, a small research programme. His officials also point out that some $1.2 billion could flow to alternative energy plans as part of a package to open up the Alaskan wilderness to drilling for oil. But even some Republicans are backtracking on this proposal.

So will the Cheney task-force be bound by Mr Abraham's pious pronouncements of market discipline? Will the team really stick to his principle of not lavishing subsidies or tax breaks on industries big enough to afford to finance themselves? The chances are about as likely as the idea of California avoiding black-outs this summer.

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The north-west salmon gets squeezed

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Reuters

SALMON like cool water. People like cool rooms. Salmon find their cool water in the giant Columbia river. People get their cool rooms from air conditioners powered by Columbia river hydroelectric dams. This summer, it appears, people will be cooler than salmon. The reason is that the energy shortage in California is gradually moving northwards to Oregon and Washington.

Usually, melting snow in the vast Columbia river basin, which covers parts of Oregon, Washington, Montana and Idaho, keeps dam turbines spinning in July and August, providing power for about 45% of the Pacific north-west's people and generating enough surplus power to sell to California, where power consumption peaks in summer. But this year snow packs are about half what they normally are, and river flows among the lowest since 1950.

This requires a trade-off. To produce electricity, water is first stored behind Bonneville Dam, Grand Coulee Dam and dozens of other dams that block the Columbia and tributaries such as the Snake river, and then sent through giant turbines in the core of the dams. But, to help young salmon migrate to the ocean, water is best diverted over dam tops, keeping river flows fast and cold, and steering the young fish, called smolts, away from fish-killing turbine blades. This summer dam operators say the energy shortage means giving priority to power generation.

In early April, the Bonneville Power Administration (BPA), a federal agency that sells electricity produced by most of the dams on the Columbia and Snake rivers, declared a power emergency. That declaration frees it from some rules put in place to help the 12 salmon runs protected by the Endangered Species Act. Otherwise, say BPA officials, it will need to spend $1.4 billion to buy power from other sources (of which there are few this year) and perhaps impose rolling blackouts over wide areas.

Dam managers say that measures such as shipping more young salmon downstream in barges—an unusual journey that some fish have been making for 20 years—can hold the increase in the death toll of smolts down to about 10%. Salmonistas reply that this is nonsense. In a previous drought year, 1997, salmon mortality approached 90%, says Jim Martin, a former director of Oregon's fish and wildlife service.

Greens say power conservation can reduce electricity demand, and the BPA on April 9th did advise power users to cut consumption by 10%. But that will only stave off the worst crises, not bring things back to normal.

Another alternative would be to divert water stored for potato irrigation in Idaho reservoirs into the Snake river, which then can flow into the Columbia. With a flat market for potatoes, say greens, it would be relatively cheap to pay farmers for irrigation water. There are too many potatoes on the market, and

prices are low, but Idaho's powerful farm industry is resisting the idea of putting salmon ahead of its crop.

So it looks as if salmon, often seen as the icon of the Pacific north-west, will yield to symbols of modernity: the light bulb, the air conditioner—and, oh, the French fry.

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Ecoterrorism

Brutal elves in the woods

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From The Economist print edition

AMERICA is a country founded on ideas, and it has always had its contingent of fanatics, willing to do violence in pursuit of their beliefs. From John Brown to Timothy McVeigh, some Americans have taken their principles, good or bad, to deadly extremes. When three-quarters of all Americans call themselves environmentalists, it is hardly surprising that the green cause has its share of extremists. Lately, the FBI has decided that enough of these militant environmentalists are working together under a single label, as the Earth Liberation Front (ELF), to merit investigation as a terrorist network.

Recent attacks on property suggest that the ELF has considerable reach. In late March, over 30 sport-utility vehicles in a sales lot in Eugene, west Oregon, were burned in an arson attack that did $1m-worth of damage. On April 2nd milk jugs full of petrol were discovered on the roof of a Nike shop in a mall north of Minneapolis. A conflagration, with which the ELF claimed it was going to punish the sports-shoe maker (for operating "sweatshops"), was narrowly averted when snow put out the fuses leading to the petrol.

AP

Who does Rosebraugh speak for?

Arson attacks around the beginning of the year on newly built houses on Long Island and in 1998 on ski lodges around Vail in Colorado have contributed to a total of $37m-worth of damage to property since the ELF first surfaced in 1997. Another technique practised under the ELF banner is tree-spiking—driving metal spikes deep into tree trunks and then warning loggers that they run the risk of wrecking their power saws (and being hit by flying shrapnel) if they go to work on that patch of forest.

The FBI is after the ELF. On April 5th agents in Portland raided the house, car and bakery of Craig Rosebraugh, who acts as a spokesman for the group, although he claims not to be a member, or to know who is. They served Mr Rosebraugh a subpoena to appear on April 18th before a grand jury investigating the car fire in Eugene, and carried off files and computers to pore over for clues as to what the ELF really is.

It will be hard to work backwards from the anonymous e-mail messages, electronically rinsed of any identifying data, that Mr Rosebraugh passes on as ELF announcements. The ELF claims it is designed to be impenetrable, with a clandestine structure, pioneered by Chairman Mao, of "cells" in which each member knows only a few others. Indeed, the ELF takes cell structure even further, making its country-spanning reach both more and less threatening.

In order to be part of the ELF, you simply have to claim you are. And then, provided your actions are designed to "inflict economic damage" on environmental profiteers and that you take "all necessary precautions against harming any animal, human and non-human", you are in.

This is an ingenious technique, since it both gives the vaguer sort of enthusiast an encouraging sense of belonging, without posing any risk to the serious members, and also gives an impression to the outside world of greater strength and organisation than actually exists. Gary Perlstein of Portland State University, who has studied terrorist groups of all sorts, suggests that the self-anointed membership of the ELF may add up to several hundred people but that its core may consist of no more than a dozen.

The only drawback of declaring yourself part of the ELF comes if you are caught. What might once have been treated as simple vandalism is now designated terrorism and punished accordingly. Four teenage boys, arrested in January after the Long Island arsons, now face potential jail sentences of 20 years each, with 40 years for the ringleader. The value of expendable foot-soldiers was a thing Mao also understood.

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Peru contemplates a return to a troubled future

Apr 12th 2001 | LIMA
From The Economist print edition

A wide-open run-off election could herald a shift to populism

Get article background

Reuters

Will Garcia have the last laugh on Toledo?

THE second presidential election in a year in Peru had a clear political winner, but it was not Alejandro Toledo, the man who came first. Rather, it was Alan Garcia, a populist former president. In coming second, he did well enough to be a serious contender in the next round of voting for the presidency. Since Mr Garcia's chaotic rule in 1985-90 is indelibly associated with hyperinflation, a failed bid to nationalise the country's banks and a unilateral limit on debt payments, that is an achievement to alarm free-market reformers across Latin America.

The election was seemingly Mr Toledo's to lose, given his status as the main challenger to Alberto Fujimori in a rigged election last year. Deposed in November, Mr Fujimori is now despised, because of the high-handed racketeering of Vladimiro Montesinos, his still-fugitive intelligence adviser. Mr Toledo, an economist educated at Stanford University in California, had led opinion polls throughout the campaign. But with over 90% of the votes counted, he had won only 36.5% of the valid ballots—several percentage points lower than the opinion surveys had suggested, and less than he won against Mr Fujimori last year. Mr Garcia had 26%, ahead of Lourdes Flores, a lawyer of the centre-right, with 24%. That seemed to leave the second round wide open.

Mr Garcia returned to Peru only in January after eight years in voluntary exile from Mr Fujimori's regime, which had accused him of corruption. With a surefooted campaign, he succeeded in transforming himself from bogeyman to statesman in less than three months. He stuck to a handful of everyday economic issues. He criticised bills charged by privatised electricity and telephone companies, and high interest rates. He said he would seek to renegotiate the foreign debt, and resuscitate a state agrarian bank to give farmers cheap loans. He did well among young voters—more than half of Peru's electorate is under 36. "A tenth of voters have no experience of Alan Garcia, and those who do have heard him admit he made mistakes," says Francisco Sagasti, a political commentator.

Mr Toledo seemed to have been hurt by allegations about his personal life. He has refused to take a DNA test in a paternity suit unless ordered to by judges, and he has left unanswered questions relating to an incident in 1998 when he tested positive for cocaine. Mr Toledo claims he was kidnapped and set up by intelligence agents.

A former shoeshine boy from a poor Andean Indian family, Mr Toledo got into a tit-for-tat battle with Ms Flores over race, which helped neither of them. Voters were turned off by Mr Toledo's Belgian-born wife who criticised Peru's elite of "little whites" and fancifully compared her husband to an Inca. Ms Flores's biggest mistake was having allied herself with former Fujimorists, but she was not helped when her father called Mr Toledo a "cameloid". Mr Garcia stayed out of the name-calling, and benefited.

Both Mr Garcia and Mr Toledo claim to favour the "third way" of Britain's prime minister, Tony Blair (though Mr Garcia, at least, seems to prefer much more interventionist policies). Their success is a rejection of Mr Fujimori's free-market economic policy. This produced strong growth at first, but the economy has performed poorly for the past few years. For more than a decade, half of Peruvians have been officially classified as poor—though their poverty owes more to Mr Garcia, who exhausted Peru's savings and its credit, than to Mr Fujimori.

Both candidates will need a new strategy for the second round, which will probably take place in late May. Any deals they strike with the defeated candidates may not mean much, since party loyalties are weak. Though they may be tempted to outbid each other with populist promises, most of the floating voters are in the centre. Mr Garcia says he will seek to reinforce his economic team by looking outside his

own APRA party. Mr Toledo is already being advised by Pedro Pablo Kuczynski, a veteran investment banker. His need is to project credibility as a future leader. Neither candidate is likely to be able to avoid a real debate in the second round, as they did in the first. In any such exchange, Mr Toledo might come off worst against Mr Garcia's silver tongue.

Unpredictable voters

For Peruvians, who have been let down so often by their leaders, the choice is likely to come down to a question of whom they can trust. Business leaders have not forgotten the disasters of Mr Garcia's previous government. For many of them, the second round is a Hobson's choice between two wild cards: the only difference is that one has failed in government but claims he has changed while the other is untried.

On paper, Mr Toledo should still win. Although Mr Garcia has reduced by half the high number of people who told pollsters they would never vote for him, his electoral ceiling is probably still the lower of the two. Yet Mr Toledo has to turn round a declining campaign. His oratory sounds tired after nearly two years on the stump.

No political analyst in Peru is ruling Mr Garcia out. Peruvian voters have a habit of upsetting predictions. A decade ago, Mr Fujimori, with the support of Mr Garcia, came from nowhere to win a run-off against Mario Vargas Llosa, a novelist and liberal, who had been ahead in the opinion polls for months. After a decade demonising Mr Garcia and his failings, it would be ironic if Mr Fujimori's own grotesque misrule were to end up re-electing his predecessor.

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Brazil

Cleaning up

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From The Economist print edition

FOR the past two months, President Fernando Henrique Cardoso has been trying to stop Brazil's Congress from holding an inquiry into corruption claims involving several ministries as well as leaders of his four-party coalition. The accusations were a matter for the police and judiciary, he argued; a congressional inquiry would degenerate into mud-slinging and divert Congress from passing vital economic reforms.

Mr Cardoso seemed to be winning the argument. But last week details of telephone calls intercepted by the police were leaked to the press, giving new evidence of fraud at Sudam, a development agency for Amazonia and the focus of the most serious allegations. A new boss sent to clean up the agency said on April 9th that up to 1.8 billion *reais* ($830m) may have been embezzled.

Many of the corruption accusations have been around for years. But they were revived during a bitter battle in February for the powerful post of president of the Senate between two of the governing coalition's heavyweights. Antonio Carlos Magalhaes, of the conservative Liberal Front, was determined to stop Jader Barbalho, the leader of the catch-all Party of the Brazilian Democratic Movement (PMDB), from succeeding him in the Senate job. The two traded corruption accusations; then, furious that Mr Cardoso had not stopped Mr Barbalho winning, Mr Magalhaes accused the president of tolerating sleaze. Mr Cardoso sacked two ministers nominated by Mr Magalhaes, who then threatened to support an opposition call for a congressional inquiry.

Mr Cardoso seemed to have halted this by threatening more sackings, by promising more money for congressmen's pet projects and by dismissing the board of the highways agency, another focus of corruption allegations and, like Sudam, part of the PMDB's fief. At the same time, the president announced the creation of a federal inspector-general to investigate corruption.

These measures, plus the leaking of the Sudam tapes, have prompted the left-wing Workers' Party, the main opposition, to change tack. Rather than an across-the-board corruption investigation, it now wants an inquiry into Sudam. Since this threatens only the PMDB, it is more likely to win enough backing to be set up.

Mr Barbalho denies all the allegations against him, and says that none of the evidence implicates him personally. A prosecutor in his home state of Para, in Amazonia, this month dropped a case alleging that, when he was its governor in the mid-1980s, he had received money embezzled from the state bank. The prosecutor said a long-awaited report from Brazil's Central Bank contained insufficient evidence. Papers the Central Bank had previously sent disappeared from the prosecutor's office in 1996.

Mr Barbalho commissioned a consultancy to rebut claims that he had amassed a fortune of 30m *reais* despite spending his adult life in politics. But his critics questioned the low values assigned by the consultants to some of the senator's assets (such as 354 *reais* for a 25% stake in a radio station).

Mr Cardoso's advisers argue that, given Brazil's multiplicity of weak parties, the only way to govern is with a broad coalition, which will necessarily include people the president might rather avoid. But is that an argument for doing nothing? Many of the measures Mr Cardoso wants before leaving office in December 2002, such as a partial tax reform, are unlikely to be approved. Why not put them aside while Congress debates at least the worst corruption allegations? Too risky, say aides: it would be hard for the next president to revive the reforms if they had been abandoned, especially if the inquiry had blown the coalition apart.

Most Brazilians seem to agree with Mr Cardoso's view that sleaze-busting should not be put above all else. According to Datafolha, a polling company, 84% want a congressional corruption inquiry. But when asked what the country's biggest problem was, 37% said unemployment and only 2% cited corruption. Unemployment is falling and thus Mr Cardoso's popularity is rising.

Nevertheless, the two leading candidates to succeed Mr Cardoso—Tasso Jereissati, the governor of Ceara state, and Jose Serra, the health minister—do not seem to share his view that a split in the coalition must be avoided at all costs. They seem to see more risk in entering a presidential election next year tainted by the coalition's more controversial leaders, and are said to be contemplating a break with them. Maybe the opposition will get its inquiry after all.

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A small riot in Guyana

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ON APRIL 9th, three weeks after he had been returned to power in a general election, Guyana's 36-year-old president, Bharrat Jagdeo, announced his new cabinet. As he was doing so, a fire gutted a block of shops and offices in the centre of the capital, Georgetown. A female bystander was shot dead. In the nearby market, thieves snatched gold chains and earrings from Indo-Guyanese women. In the countryside, Afro-Guyanese supporters of the opposition People's National Congress (PNC) blocked the country's only east-west road, demanding tolls to aid "the struggle".

Such is politics in Guyana, a country bitterly divided along ethnic lines. The Afro-Guyanese, who mainly support the PNC, represent only 33% of the population. After holding power from 1964 to 1992 through rigged elections, the party seems unable to accept a life in opposition. Its leader, Desmond Hoyte, who is aged 72, does not want cabinet posts for his supporters, but he does want control over some government appointments, and guarantees against race discrimination. Mr Jagdeo has offered talks; Mr Hoyte seems to prefer riots.

A small army of local and foreign observers found the election messy, but basically fair. There were troubles with the voters' list—hardly surprising in a country where the latest telephone directory contains 1,500 errors out of 60,000 entries. The PNC talks of a conspiracy by government supporters to manipulate the poll. It may file a legal action contesting the result.

Guyana has teetered for years on the brink of serious ethnic conflict. So far, Mr Jagdeo's People's Progressive Party has managed to stop its supporters from hitting back. But, on the street, the noises are increasingly ominous.

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Chile

Speech unfree

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From The Economist print edition

IN MANY respects, democracy looks increasingly mature in Chile nowadays, not least in the way the courts have pursued the legal case against General Augusto Pinochet, the country's dictator from 1973 to 1990. Even so, Chile remains a surprising laggard on one measure: Cuba apart, it has tighter legal restrictions on free speech than any other Latin American country, according to Santiago Canton, the special rapporteur for freedom of expression of the Organisation of American States.

Journalists are no longer grabbed off the streets and thrown into secret prisons, as they were under General Pinochet. But the dictatorship's state security law remains in force: it treats *desacato* (contempt of authority) as an offence against national security that can carry a prison sentence of up to five years. Journalists can, and sometimes do, face criminal charges because of their work. Publications can be seized if they offend the authorities, a fate meted out to "The Black Book of Chilean Justice", a tome published in 1999 about judicial corruption. To escape arrest, Alejandra Matus, its author, fled to the United States, where she was granted political asylum. Last year, a newspaper reporter received a suspended 18-month prison sentence under the state security law, after being sued by a Supreme Court judge.

In recent weeks, these repressive laws have attracted much criticism from international human-rights groups. As a result, Chile's centre-left government at last seems to have been embarrassed into trying to change them. Since 1993, a bill to eliminate *desacato* from the state security law and otherwise improve press freedom has been stuck in Congress. Now, suddenly, it is moving. The government says that it hopes to obtain its approval, along with the abolition of prior film censorship, within weeks.

That would be a step forward, but it may not on its own produce more vigorous media. Most of Chile's newspapers, and two of its main television channels, are owned by conservatives. That puts them in the opposition, but "they still feel the need to be on the right side of the authorities," says Juan Pablo Olmedo, a lawyer who specialises in free-speech cases. Journalists say their employers sometimes even share a scoop with competitors, to seek safety in numbers.

Perhaps because it faces such a one-sided press, the government has shown no interest in privatising the widely watched state-owned television channel. Neither has it taken other steps to foster pluralism, say critics. Federico Joannon, a founder of *El Mostrador*, an online newspaper launched last year, complains that the government continues to split its advertising budget exactly the same way as the dictatorship did, dividing it between the two main right-wing press groups. Some journalists even say that the government is more comfortable with opposition newspapers, whose criticism it can dismiss as politically motivated, than with dissent from its own camp.

If the press is to be shaken up, it could be by new ventures, such as *El Mostrador*, or the *Clinic*, a satirical fortnightly paper (which takes its name from the London Clinic, where General Pinochet was arrested in 1998 while recovering from an operation). Unlike its British equivalent, *Private Eye*, it has so far managed to keep out of the courts. Whether that is because Chile's establishment fails to get the jokes, or because the country is indeed becoming more tolerant, is not yet clear.

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Jamaica

Killer cops

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AP

Who's the thug?

LAST September, Pierre Sané, the secretary-general of Amnesty International, met P.J. Patterson, Jamaica's prime minister, and was assured that his government was committed to protecting human rights. In the six months since then, according to the London-based human-rights group, Jamaica's police have killed at least 65 people. According to Amnesty, in proportion to population more people are killed by the police in Jamaica than anywhere else in the world, and five times as many as in another notoriously violent country, South Africa.

On April 10th, Amnesty released a report into the deaths of seven Jamaicans, aged between 15 and 20, who had been shot by police on March 14th. Before dawn, 60 police had surrounded a small house in Braeton, a featureless housing estate on the fringes of the capital, Kingston. The police say they were shot at, and fired back.

None of the police was hurt. Eyewitnesses dispute their story. One girl says she heard her brother begging for his life. Neighbours say they heard screams, and a panic-stricken Lord's Prayer. Amnesty found the police account "highly unlikely"; some of the dead had been shot at close range, others had been severely beaten. The Jamaican Bar Association agrees. It thinks the killings may have been "cold-blooded murder".

The police say that some of the teenagers shot at Braeton had killed a policeman on March 1st to get his revolver. They were blamed, too, for the death of a well-liked school principal, shot dead on March 13th while trying to escape from robbers who had interrupted a game of dominoes. These charges may well be true. But not only have the youths been denied a trial, they appear to have suffered the death penalty.

K.D. Knight, the national security minister, says that he is waiting for the coroner's report into the killings, and that a prosecution may follow. He says there have been improvements, not recognised by Amnesty. The number of killings by police fell from an average of 240 per year in the 1980s to 140 last year. He attributes the fall to the setting up of an independent police-complaints authority, and better police training.

Jamaica's police have a tough time. They are often outgunned by gangs of drug dealers. The island's young criminals dress nicely, but are otherwise low on charm. Last year, Jamaica had 887 murders (in proportional terms, more than in South Africa, though fewer than in Colombia or El Salvador). Eleven policemen were killed by criminals. Feelings on both sides are running high. On March 23rd, rival demonstrators from the Police Support Action Committee and Jamaicans for Justice, a civil-liberties group, almost came to blows outside the national security ministry. In a violent society, police may sometimes have to shoot. But in Jamaica, they seem to do so too readily, and unconstrained by effective sanction.

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Enter the Kashmir peacemaker

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From The Economist print edition

India's new move to end tension in a dispute that has lasted for 53 years

Get article background

AP

PRESSED by reporters this week to say something that would make a headline, Krishna Chandra Pant, India's new peacemaker for Kashmir, was characteristically cautious. "Dialogue", he said, "is a process, not an event." So, no quick fix for the 53-year-old Kashmir dispute, the cause of two of India's three wars with Pakistan. Not that anyone was expecting a quick fix, and it does no harm to keep expectations realistic. Mr Pant will try to bring peace, but it will be a long haul.

Mr Pant was drafted in by the Indian government on April 5th to try to inject some semblance of activity into a peace effort that has made little real progress since last November when Atal Behari Vajpayee, the prime minister, announced a unilateral ceasefire in the government's campaign against militants in the mainly-Muslim state of Jammu & Kashmir. In December, Pakistan pulled troops back from the "line of control", the de facto border between Indian Kashmir and Pakistani Kashmir. That helped to ease tension. It brought peace to the border near Kargil, where a battle had taken place between the two countries in 1999 and thereby alerted the world to the risks of another war over Kashmir, this time possibly involving nuclear weapons.

But elsewhere in Kashmir there has been anything but peace. General Pervez Musharraf, Pakistan's military ruler, last week even called the ceasefire a hoax. That was a strange accusation: Pakistan-supported guerrillas, especially the Lashkar-e-Tayiba, have continued to attack Indian police posts and other government installations, sparking clashes with Indian security forces. Nearly 400 civilians and 200 security officers have been killed since last November.

For a start, Mr Pant will aim to talk quietly to the main groups in Kashmir, militant and non-militant, and presumably to Pakistan through informal diplomacy, probably at first though intermediaries. He can discuss any aspect of the dispute. But he will be aware of India's determination not to cede sovereignty over Kashmir—though it is probably willing to agree eventually to a form of regional autonomy.

Mr Pant, who is 69, is one of those respected politicians talked of as a possible prime minister but then ruled out as being too much of a cautious gentleman to make it to the very top of India's rough politics. Over the past 34 years, Mr Pant has held a variety of senior government jobs and has a reputation for quietly achieving results. In the 1980s, he was defence minister in a Congress government, and helped to deal with regional conflicts in north-east India.

Now he has become a sort of patrician workhorse for Mr Vajpayee's coalition, which, having never held office till it came to power in 1998, is short of experienced elders. He was briefly involved in work for the Congress party in Kashmir nearly 20 years ago, when Indira Gandhi was prime minister, but has had no direct involvement in the state since separatist violence developed in the early 1990s. That may be no bad thing.

It has to be said that the Indian government gave Mr Pant a rocky start. A statement announcing his appointment annoyed the Kashmir-based All-Party Hurriyat Conference, which comprises more than 20 groups that refuse to recognise India's sovereignty over Kashmir but are divided over the use of violence. The Hurriyat is India's most likely partner in any peace talks, but it refuses to sit down with other Kashmiri groups that tacitly or openly recognise Indian sovereignty. The statement said it hoped that the Hurriyat's participation would be unconditional. But the Hurriyat wants to send delegates to Pakistan before any talks, and has been waiting since January for the necessary Indian passports.

The statement upset Pakistan by repeating India's insistence that talks between the two countries depended on Pakistan curbing cross-border terrorism and putting an end to anti-India propaganda. Pakistan also wants to be included in any talks with India and the Hurriyat, a proposal India at present rejects. The statement may have said nothing new, but its reception shows how sensitive is anything connected with Kashmir.

So where does Mr Pant begin? Obviously, with the Hurriyat. It plans to meet this weekend to discuss its stance. If Mr Pant can persuade the group to say some constructive things about the need for talks with the Indian government, he should then get India to issue the much-delayed passports. The most difficult decision will be whether to give one to Syed Ali Shah Geelani, a pro-Pakistan hardliner whom India would like to exclude. But whether Mr Geelani goes or not, India will be faced with what, from its point of view, will be infuriating anti-Indian propaganda during the visit.

The hope is that, behind the scenes, the Hurriyat would sell the idea of curbing the violence to General Musharraf and to leaders of guerrilla groups such as the Hizbul Mujahideen, which declared a short-lived ceasefire last July. Pakistan could help by endorsing India's wish to talk about soft confidence-building issues such as trade and visas. Mr Musharraf opposed this approach in an interview with India's *Asian Age* newspaper last week, saying that unless Kashmir was dealt with directly, all other activity would be futile.

If things move on, Mr Pant could urge the parties to begin with what might be called triangular talks. That would involve three sets of bilateral talks between India, Pakistan and the Hurriyat, thus avoiding India having to sit down jointly with both Pakistan and the Hurriyat. In addition, Mr Pant would have to find a way of making representatives of other groups feel involved, without alienating the main participants. Only later might everyone come together round one table. That, pundits say, might be several years away. But it might at least be a period without the prospect of war.

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Japan's sins of omission

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THE Japanese view of their history in the 20th century often differs from that held by other Asians. Their neighbours tend to get particularly upset when "distortions" appear in Japanese schoolbooks. As a result of the latest tiff, on April 9th South Korea expressed its displeasure by recalling its ambassador from Japan.

Reuters

Japan distorts history, says the sign

At issue is a new textbook written by a group of scholars said to have right-wing views. Before approving it, the Japanese government says it secured 137 corrections in the text. For example, a statement that Japan took possession of Korea in 1910 by legitimate means now reads that it was annexed by force. The Japanese point out that the textbooks are published by private companies (this one by Fushosha). The government is allowed by law to screen them "fairly" but not to rewrite them.

The South Koreans are not appeased. They note that neither this book nor four earlier Japanese history books mention that thousands of girls from Asian countries, mostly from Korea, were made to work in Japanese army brothels. Such historical sins of omission should not be tolerated, they say.

South Korea and Japan have done much to end the bitterness of the past. In 1998 Keizo Obuchi, then Japan's prime minister, offered his country's heartfelt apology for the sufferings of Koreans under Japanese rule. South Korea has opened its doors to Japanese popular culture, and plans to abolish any remaining import restrictions before the World Cup football matches to be held in the two countries next year. But lasting friendship between the old enemies depends on a "correct understanding of history", says an official in South Korea's Foreign Ministry sternly.

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Japan

Another chance?

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SO MUCH for the idea that no one wanted the job. After Yoshiro Mori told the Liberal Democratic Party (LDP) in March that he would resign as prime minister, there was an embarrassing shortage of candidates to replace him. Yet on April 9th Junichiro Koizumi, a former posts and telecoms and health minister, said he would be a candidate for the top job. A day later Taro Aso, the economics minister, and Shizuka Kamei, the LDP's policy chief, offered their services. Ryutaro Hashimoto, a former prime minister and, lately, minister in charge of government reform, added his name to the list on April 11th.

EPA

Hopeful Hashimoto

With less than two weeks to go before the vote, suddenly the LDP is spoilt for choice. In truth, there are only two men in the race: Mr Hashimoto and Mr Koizumi. That makes the contest a rerun of the LDP's leadership election of 1995, when party barons fielded two fresh-faced young politicians to help revive the LDP's sagging fortunes with the voters.

The two rivals are no longer so young or so fresh-faced, but some things never change. In 1995, Mr Hashimoto won handsomely. This year, he is likely to do so again. Mr Hashimoto has two things going for him. First, he is head of the LDP's largest and best-organised faction. Not all of the Hashimoto faction's 102 Diet members—almost one third of the parliamentary party—will vote for their leader, whose haughty airs go down better with the public than with the LDP. But the faction's unrivalled campaign-finance network, the chief bequest of the late Noboru Takeshita, still buys plenty of loyalty among the rank and file. Second, Mr Hashimoto is the choice of Hiromu Nonaka, the LDP's most influential power-broker, who decided last week not to go for the top job himself. Mr Nonaka belongs to Mr Hashimoto's faction, but his tentacles reach everywhere.

Against these mighty forces, Mr Koizumi has wisely chosen to fight on policy, not factional loyalty. As in 1995, Mr Koizumi's platform is party reform, which he wants to achieve by privatising the post office. The idea is to take the drugs away from the addict. The post office helps to deliver the LDP's organised rural vote. But, although electoral reform, migration and demography are all weakening the power of the countryside, the LDP still clings to its political roots. This week, for instance, the government decided to slap import curbs on Chinese vegetables, despite protests from urban consumers who pay through the nose for expensive home-grown alternatives.

Mr Koizumi says he wants to sever the LDP's old rural ties and rebuild the party around the urban majority. His message is not entirely lost on the LDP. He is popular among its grassroots members, who have a keener sense of crisis than the sheltered politicians in Tokyo. The LDP's local chapters will cast about one-third of the votes in the leadership election on April 24th, and opinion polls suggest Mr Koizumi is their first choice.

Support from the minority of liberal thinkers in the parliamentary party, such as Taku Yamasaki and Koichi Kato, will boost Mr Koizumi's chances further. In the end, though, this may not be enough. Although Shizuka Kamei has no chance of winning the LDP's leadership race himself, he is hoping to gain enough support to cast the deciding vote. Mr Kamei is from the LDP's old guard, firmly wedded to vested interests and addicted to pork-barrel fiscal stimulus. In return for his support, Mr Kamei is demanding that he should stay on as the party's policy chief. Until now, he has used this post to frustrate deregulation and bank reform, and to push for more government spending.

Despite his reputation as a reformer, Mr Hashimoto may now be preparing to make the necessary concessions, by watering down his previous support of structural reform, and backing away from an immediate tightening of government finances. But it is these sorts of policies that find increasing favour with the voters. In 1998, Mr Hashimoto led the LDP to a humiliating defeat in that summer's upper-house elections. Another upper-house poll is due in July. The signs are that Mr Hashimoto will win the dubious

honour of committing the same sin twice.

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The Afghans' diplomatic skirmish

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THE fighting in Afghanistan appears to have reached stalemate. The strictly Islamic Taliban control most of the country. But an opposition group of fighters led by Ahmad Shah Masoud continues to hold on to the remaining 10%.

Reuters

Charmer Masoud

Mr Masoud gained fame for his military successes against the Soviet Union during its occupation of Afghanistan in the 1980s. To many foreigners he was the personification of the Afghan warrior, fierce but charming. Over the past two weeks he has been displaying his charm among European politicians in the hope of getting aid for his cause. He has received a respectful hearing from officials in Paris and Strasbourg, where he addressed the European Parliament. He appears to have a friend in Javier Solana, the EU's foreign-policy chief, who on April 6th called for a "genuine dialogue" on the future of Afghanistan, without saying exactly what that would mean.

All this has upset the Taliban. On April 7th, their foreign minister led a delegation to Qatar, the current head of the Islamic Conference, to which 56 countries belong. The Taliban want diplomatic recognition from Qatar and the conference. Neither seems likely to oblige at the moment. In March, Qatar pleaded with the Taliban not to destroy Afghanistan's ancient Buddhist statues. The plea was disregarded. Diplomacy does not seem to be the Taliban's strong point.

At present, the Taliban are recognised by only three countries, Pakistan, Saudi Arabia and the United Arab Emirates. Most other countries continue to recognise the government ousted by the Taliban's brutal Islamic "students". Mr Masoud is the most prominent member of the old government. On his European trip, he complained that Pakistan was giving military aid to the Taliban, which is probably true, although denied by the Pakistanis. Pakistan retorted that Russia, France, Iran, Tajikistan and India were sending arms to the Masoud forces, which is also probably true.

After their bit of talking, Mr Masoud and the Taliban mission returned to their bases. From there, with summer on the way, fighting is expected to resume.

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Myanmar

Wary still

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From The Economist print edition

"LESSONS from history teach us to act with caution for ever. National independence can be lost again with one ill-considered blunder." Thus spoke Senior General Than Shwe, top dog in Myanmar's ruling military council, in a rare public pronouncement last month. He was celebrating the annual armed-forces day at the country's famous Shwedagon pagoda in Yangon, the capital. Hasty political reform would bring only chaos, he said. Instead, he claimed, the country enjoys a careful, steady transition to democracy.

Treat that view with the caution the general so favours. Despite some outsiders' optimism, there is little hard evidence yet that Myanmar's clumsy dictators are relaxing. After several decades in power, the junta has achieved little, except to repress democratic parties. Myanmar (formerly Burma) was once one of Asia's most promising economies, blessed with natural resources and an educated people. Now it ranks alongside African basketcases. Hundreds of thousands of its people have fled. In 1990, when they were last allowed near a ballot-box, the voters unambiguously opted for the main opposition party, the National League for Democracy. The junta annulled the election and cracked down on the NLD.

The hope is that some in the junta—a better educated, more aristocratic faction—may be willing to try a different route. A few political prisoners have been released. Aung San Suu Kyi, a leader in the NLD whose virtual house-arrest in Yangon was made even tighter than usual last September after a public stand-off with the police, has been granted regular talks with the government in the past few months. The nature of the discussions are unknown even to close NLD supporters, let alone to smaller, ethnically-based opposition parties. "We fully support them, but they must remember this dialogue is for the whole country," says Maung Maung Aye, of the National Coalition Government of the Union of Burma, an umbrella opposition group.

Just as talks are starting inside the country, outside mediators are finding more luck too. The United Nations' special representative for Myanmar, Razali Ismail, who is Malaysian, has been able to generate lukewarm relations with the junta. His success probably owes something to Myanmar's readiness to see Malaysia as an ally against western criticism. Eager to discern improvements, a group of European Union delegates muttered hopes for change after a visit in February. Even the envoy of the UN's human-rights office, Paulo Sergio Pinheiro, a Brazilian, was able to visit Yangon last week. The first member of that office to be admitted in five years, he was given permission to see Miss Suu Kyi, who is said to be healthy, isolated and, no surprise, well-rested.

All this adds up to a case for "cautious optimism", said Mr Pinheiro after his trip. But behind the scenes there is scepticism. Some suspect that reports about the talks with the NLD are not being made public because diehards in the junta do not support them. These are careerists who have risen through the ranks and are stirring up clashes with Thailand's army on the shared border. They may be testing Thailand's new prime minister to see how he responds to the pressure, or they may think that a bit of fighting strengthens the army at home. Either way, real change will come only when these men are convinced it is needed. And for them, remember, caution lasts forever.

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Pakistan

Not safe yet

Apr 12th 2001 | LAHORE
From The Economist print edition

EPA

Bhutto's fans may have to wait

TWICE elected as prime minister and twice disgraced, Benazir Bhutto may fancy her chances of a third term in office. If so, her hopes would be based on a Supreme Court verdict on April 6th which set aside a conviction by a lower court in Lahore for corruption against her and her husband, Asif Zardari, and ordered a retrial. "I've been vindicated," said she.

Maybe she should withhold judgment. In 1998, the government of a successor, Nawaz Sharif, accused Miss Bhutto and Mr Zardari of taking illegal commissions from a Swiss agency (Societé General de Surveillance) appointed by the Bhutto government in 1994. When the court announced a guilty verdict, Miss Bhutto accused its chief justice, Malik Qayyum, of acting at the behest of the prime minister. The Supreme Court granted bail to Miss Bhutto, but seemed in no mood to overturn the decision. Fearing arrest, she left Pakistan and has not returned since. Mr Zardari has been in prison since November 1996, when Miss Bhutto's government was dismissed by the president. Last February, doubtless prodded by the military regime of General Pervez Musharraf, the Supreme Court decided it was time to open and shut the Bhutto file. But a British newspaper published transcripts of taped conversations suggesting collusion between the Lahore court and members of the government.With the tapes lodged with the Supreme Court, a retrial was the minimum Miss Bhutto might have expected. Indeed, she may well ask the Supreme Court for an acquittal.

Yet anyone who thinks that Miss Bhutto's troubles are over, enabling her to fly back to Pakistan, there to be welcomed by rousing crowds that will sweep her to power, should think again. Many Pakistanis remain sceptical of politicians, even if one seems to have gained a legal reprieve. Nor is the Musharraf regime ready to relent. It has prepared other charges against her and says it will arrest her if she sets foot in Pakistan.

So where does she go from here? For the moment, at least, General Musharraf seems firmly in the saddle. He has pushed one prime minister—Mr Sharif—out of the country and seems determined to stop another from venturing back. He means to become president (he calls himself chief executive at present) and restore "guided" democracy. Perhaps Miss Bhutto's best bet may be to try to clinch a deal with him much like Mr Sharif's: in exchange for personally staying out of politics for at least five years and giving the general a clear run, she might win back her husband's freedom and stake a reasonable place for her party in the next parliament.

Certainly, she has been careful not to rule out anything. "If the national interest so demands," she coyly said in a recent interview, "I could conceivably stay away from Pakistan for some years." After all, she does have three children to look after.

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Thailand

No panic

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IF THE bombs had exploded in another country, they might have been seen as a serious threat to security. But the two that went off in southern Thailand on April 7th have not yet caused too much alarm. One person, a child, was killed, and several dozen other people were injured. Thailand's government quickly blamed the blasts, with some reason, on the Islamic militia groups that have long advocated secession for territory in the south. But unlike the separatist militias in Indonesia and the Philippines, those in Thailand are tiny, weak and isolated. That is partly because Thailand, an overwhelmingly Buddhist country, has governed its minorities more effectively than have its neighbours.

EPA

Train delays at Hat Yai

Although its population is probably the most homogeneous in South-East Asia—in terms of religion, ethnicity and language—about 5% of Thailand's 62m people are Muslim. Most Muslims live in five southern provinces bordering predominantly Muslim Malaysia. The militants make up only a small fraction of that minority, but have occasionally created trouble for the government. In the early 1990s, they orchestrated several bombings in the region, and have occasionally made noises since. The group appeared to lose some of its wind in 1998, after the arrest of several leaders of the Pattani United Liberation Organisation, one of the bigger outfits. The militants were demoralised when Malaysia's government offered to help with the arrests.

The militants also boast few close friends within their own community. Successive Thai governments have tried hard to deal with the southern Muslims' grievances, and have ceded a large degree of autonomy to the five southern provinces. This has, for example, allowed Hat Yai, where one bomb went off in the railway station in the latest attacks, to become a thriving commercial centre.

Government officials say the bombings were designed to gain sympathy and money from Islamist groups abroad, perhaps tied to a forthcoming conference of Islamic countries. On April 10th, the recently installed prime minister, Thaksin Shinawatra, said the attacks were "nothing special", dismissing them as "the acts of terrorists, who are looking for protection fees". "Protection" is also a speciality of the Abu Sayyaf, a kidnapping outfit in the southern Philippine islands, which uses Islamic talk to gain sympathy from Muslims in other countries.

As the Buddhist new-year celebrations start this weekend, some Thais will be feeling edgy about the militias' reappearance. Apart from stepping up security measures, however, Mr Thaksin is likely to follow the approach of previous governments. By treating southern Muslims fairly well, Thailand has given them little reason to back the small bands of terrorists in their midst.

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You're fired

Apr 12th 2001 | BRUSSELS AND LONDON
From The Economist print edition

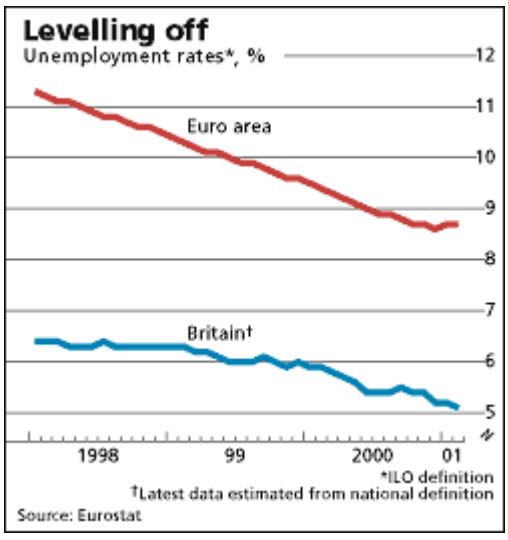
The likely revival of unemployment in Europe is bringing to the fore deep differences about the role of the employee

A SPECTRE is haunting Europe: the revival of unemployment. After years of slow decline—fast fall, in Spain—the figures have probably bottomed out, and could well rise again. As governments and central banks wrestle with the macro-economics, for employers and workers, and society at large, there is another issue: how do they handle job losses at company level?

The British approach, in crude but not wholly unfair caricature, is: sack 'em now and argue afterwards. That of mainland Europe, often enforced by law, is different: sack 'em maybe, but consult them before you do it. The reason is a different conception of the employee, symbolised in the vigorous arguments now under way within the European Union about works councils.

When Marks and Spencer, a British retailer, abruptly announced the closure of its stores on the European continent, and was condemned by French ministers, it was not just giving them a pre-electoral chance to grandstand both for their working-class voters and against *les anglo-saxons*, though they cheerfully took it. The company was not even simply flouting French law, as a court this week vigorously told it. It was challenging a continental way of thought that goes far beyond France (or Belgium, where similar court action was starting) and dates from long before anyone took against the mighty Americans or Europhobic British.

The concept of works councils—at the extreme, the worker participation of German *Mitbestimmung*—reflects a notion of the worker as partner. The 1930s fascists shared it, their theory (not exactly practice) of the way to unify society, as against the class war that was supposed to do that in the Soviet Union. So did the post-1945 Christian Democrats who long ruled Italy, still challenge to rule Germany and, though not under that name, are in power in Spain. The very words ring odd to British and Americans, but they are not just vote-getters: these parties, at their rare best, reflect the social teachings of the Catholic church.



Works councils were obligatory over 25 years ago in sizeable firms in Germany, Austria, France, Belgium, the Netherlands, France and Sweden. Germany had them under the Weimar republic, and after 1945 went much further, requiring any company with over 500 employees to have a "supervisory board" to oversee the management board, with workers holding a third of the seats, indeed half in coal and steel firms. Such ideas even then appalled British managers; yet by 1974 (when the oil shock halted most dreams of worker participation) Austria,

Denmark and Norway had given workers seats on supervisory boards, and several other countries were studying the idea.

To post-Thatcher Britons, the issues were and are those of market efficiency. The Germans believed they had got that and labour peace with it. But to them and most continentals the argument was not about corporate efficiency but about society: not by chance do “social” and its like mean “to do with labour” in several European languages. Market ideas have made wide and much-needed ground everywhere since then. But rival ideas have not simply gone away. Even now in Germany companies by law must tell both the local labour office and the works council of any lay-offs of more than a few employees. They must give the council the reasons, explain why they are sacking which workers, and negotiate a “social plan” to ease the pain. And the present government plans to extend works councils’ rights.

That was then—but it’s also now

This is the background that helps to explain recent events and many earlier clashes at the EU. Its employment commissioner, Anna Diamantopoulou applauded the French court decision against Marks and Spencer “sending a positive political message that “business must look not only to shareholders but to its main stakeholders, the workforce.” “Main”, mark that.

She is exploiting the affair to push for more EU legislation to ensure that employees are informed, indeed consulted, via works councils in any company with more than 50 staff, before the company makes big decisions. In June, EU governments will rejoin battle over this. Most back the commission’s proposal. So far, there has been a minority—Britain, Ireland, Denmark and Germany—large enough to block it. But the French, its champions, believe Germany can be persuaded to switch sides. German officials hint that their resistance is weakening.

Ireland and Denmark still firmly say no. Britain, famous for its opt-out from the “social chapter” of the EU’s Maastricht treaty of 1991, argues that an EU law already forces works councils on any company with 1,000-plus employees spread over at least two EU countries; the commission’s plan goes far too wide, say the British; and anyway the issue, within a single country, should be left to national law.

In Britain, with no tradition of worker involvement in corporate strategy, the plan would be an employer’s nightmare, says a labour lawyer there. The Confederation of British Industry argues that employment practices vary across frontiers, and should be left to do so. “There’s no need to create a level playing field,” the CBI argues.

But the Marks and Spencer affair has given ammunition to those who want uniformity in labour protection and see Britain as an unhealthy bastion of American-style employment practices. Classic “transatlantic” stuff, snorts a French law professor about Marks and Spencer’s behaviour.

Maybe, but such things are not peculiar to Britain. In 1997, Renault, in which the French government held shares, announced that it was closing a factory at Vilvoorde, on the outskirts of Brussels. It was later fined for breaching Belgian law. The affair provoked not only new Belgian legislation but the current EU proposal. When Michelin, in France, in late 1999 announced a mass slimming of jobs, France’s prime minister, Lionel Jospin, said the tyremaker was very wrong to do so while earning good profits—but he did little more. He later argued that “unjustified” job cuts should entail a financial penalty, but again, wisely, did nothing.

Nor is the “transatlantic” model of corporate behaviour all—or even much—that it is damned as: in Britain, American-owned Ford has gone to considerable lengths talking to its unions about approaching product changes and consequent layoffs. And despite (or because of) Margaret Thatcher’s efforts, and their plain boost to Britain’s economy, many British media react to mass lay-offs much as continental ones do.

Yet old differences live on. Spain inherited a thicket of labour protection, notably against lay-offs, from Franco as late as 1975. Though employers found some ways out, the law plainly needed change. Yet even now that change is slow. The reasons lie in society, not cabinet offices or boardrooms.

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Ex-Yugoslavia

NATO in the middle

Apr 12th 2001 | PRISTINA AND SARAJEVO
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EPA

Grude's Croats show their view of Sfor

NEARLY two years ago, as NATO troops entered the Kosovo town of Vitina, local people threw them roses. This week American and Ukrainian personnel came under fire as they patrolled the nearby border with Macedonia to block the flow of arms to ethnic-Albanian rebels there.

Over in Bosnia, on April 6th, the NATO-led force, Sfor, was humiliated by Croat hardliners. It was supposed to guard international administrators seizing control in several towns of branches of a bank suspected of involvement in illegal activities run by Croat nationalists. But in hardline areas such as Mostar, mobs stormed the banks in advance, looting funds, stealing documents and assaulting the foreigners. Sfor was unprepared, expecting nothing more than "inquisitive citizens", according to its commander. Eighteen soldiers were injured. At Grude, a town near the border with Croatia, 11 of the would-be administrators were carried off at gunpoint.

Neither incident was without some kind of precedent. Both symbolise the trap that ex-Yugoslavia's would-be peacemakers are now caught in.

Bosnia's Croat puzzle

The Bosnian one, however humiliating, looks the less dangerous—so far. Croat hardliners, led by the Croatian Democratic Union (HDZ), were delighted. But their riots smack of alarm at a series of blows to their influence. They lost financial support from Croatia after their sister party lost power there in January 2000, and their own vote dropped (as did those of Serb and Muslim extremists) in last November's general election in Bosnia. For some HDZ members, the rise of moderates also brings the threat of investigations into their own involvement in war crimes, corruption, illegal trafficking and other nasty things.

The HDZ managed to keep moderate Croat parties from entering government for three months after the elections. But the UN's administrator, Wolfgang Petritsch, at last overrode their stalling, and sacked the HDZ member of the tripartite state presidency, Ante Jelavic, for good measure.

Mr Jelavic, however, swiftly found a new role, as leader of a Croat National Assembly that declared self-rule in Croat-dominated cantons of the Muslim-Croat Federation in early March. It aims to undermine the federation, and show that the Dayton peace agreement cannot work. It got some 8,000 Croat soldiers to desert the federal army, luring them with a promise of good pay.

Still, setting up parallel Croat-run institutions will cost money. In this, the raided Hercegovacka Banka could be crucial. Once self-rule was declared, the bank—which collects taxes and customs duties in the federation—began to withhold funds from the federation's government. Some workers in HDZ-run public utilities were squeezed into signing over part of their wages to "support Bosnian Croats on trial in The Hague".

So the moves against the bank could hurt the HDZ. But its ability to stir up nationalist sentiments is not to be underestimated: its argument that "Bosnia's Serbs have their own entity, why must we share with Muslims?" finds many echoes among Croats.

Meanwhile in Kosovo

Kosovo is a mire already. NATO countries were closely involved in training and backing the now supposedly defunct Kosovo Liberation Army (KLA) while it was confronting Slobodan Milosevic two years ago. Now, NATO has to fear that its Kfor men will become routine targets for its ex-allies, if it tries try to curb cross-border smuggling, crime or guerrilla activity.

The Americans are still investigating an incident two weeks ago in a village near the Macedonian border, when a morning of mortar-fire wounded ten Kosovar civilians, and killed three people. Not our mortars, said the Macedonians, but no one thinks that the ethnic-Albanian guerrillas of Kosovo's newborn National Liberation Army were responsible.

Support for them is rising, witness recent rallies in Kosovo's towns, particularly Pristina, and the Albanian propaganda machine swings into action any time Kfor or Macedonian troops shoot Albanians. Two hardline political parties that sprang out of the KLA are hard at work, and the local media are happy to assist.

The five countries that have sent most men to Kosovo have different reactions to the threat. Many senior Kfor men say that the close former relations between the Americans and the Kosovar Albanians make it hard to explain now to Albanians that things have changed. The French, in the north of Kosovo, chuckle and reflect that the caution they have shown towards the Albanians since June 1999 is now proving justified.

The British, in central Kosovo, have gone the other way, trying to integrate the former KLA into ordinary life. It has been transmogrified into the Kosovo Protection Corps; the KPC has no real job, but at least its members are not off spreading trouble in southern Serbia or Macedonia. Though the British three weeks ago arrested some KPC men suspected of bombing a Serb bus in February, with 11 deaths, this attempt to contain the Albanians seems to work.

But the danger is real. A new Kfor commander, from Norway, took over in Pristina this week. Many UN and NATO voices fear that one of his early tasks may be to take the salute over the coffins of dead servicemen returning home.

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Germany

Misprescribing for health care

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WHAT is Germany's new health minister, Ulla Schmidt, up to? First, she lifted the collective financial penalties imposed on doctors who overshoot spending limits on prescription drugs, thus, in effect, killing off that eight-year-old attempt to keep down soaring health costs. Now she has announced that there will be minimum rates for health-insurance contributions. This will restrict the ability of the rival schemes to compete, and so, again, to bring down costs.

Germany has a generous and expensive health-care system. Nearly 11% of GDP goes on health, a proportion second only to the United States' 14%. Yet patient satisfaction is low, lower even than in Britain, which spends only 7% of GDP on health. And in last year's World Health Organisation survey of health-care systems, Germany was ignominiously ranked 25th, again behind Britain (though ahead of the United States, in 37th place). In quantity and quality, Germany's health care was good, said the WHO, but its cost and efficiency were dismal.

As the population grows older, and medicine more elaborate and expensive, reform becomes ever more necessary. The government of Gerhard Schröder has tried. But health reform, never easy, is especially difficult in Germany because of the complexity and power of the many interests involved. These include the big pharmaceutical companies, the 300,000-strong doctors' lobby, dozens of health-insurance schemes, which reimburse doctors and run hospitals, and the 16 state governments, which build and maintain the hospitals.

The government has had one success. Under a law of 1999, hospital financing is being revamped. Instead of receiving a standard fee per patient per day, hospitals are now to get a lump sum reflecting the type of complaint being treated, regardless of length of stay. But the doctors are a tougher nut.

When it came to power in 1998, the Schröder government warned them that it would make them pay out of their own pockets if they exceeded the spending limits on prescription drugs. Much of the effect was good. Some doctors who had previously ladled out drugs like lollipops began thinking twice before writing an unnecessary prescription, or turned to cheaper, generic medicines. But there were bad effects too. Sometimes doctors avoided prescribing the best, but also costliest, medicines. Worse, some turned away patients who needed particularly expensive medication. Many, however, reckoning that they, not some bureaucrat, knew what was the best medical practice, simply carried on as before.

As the government repeated its warning of sanctions, doctors replied with demonstrations and even strikes. What especially angered them was a decision to make all doctors within a given region collectively responsible for over-prescription. As soon as she became health minister in January, Mrs Schmidt announced that doctors would not, after all, have to pay for the accumulated DM1.8 billion ($800m) drugs overshoot of the past two years. She also promised there would be no collective sanctions in future, without proposing anything to replace them. Doctors swiftly sent spending on prescription drugs up 13% higher in January this year than last.

The health insurers, which bear the cost, were not amused. They were already threatening to put up their contribution rates next year—when a general election is due—unless health spending were brought under control. In an effort to let competition make schemes more efficient and keep rates down, patients have been allowed since 1996 to transfer from one scheme to another. Millions of mostly young and healthy people have done it, pulling out of the statutory, regionally-based schemes, with rates up to 15% of a typical member's gross income, for new company-run ones, whose rates can be as low as 11%.

The exodus has left the statutory schemes with a disproportionate number of the old and infirm, who usually cost more and contribute less, putting further pressure on rates. So Mrs Schmidt recently announced a minimum contribution rate of 12.5%. It is now employers, who pay half their workers' contributions, and the clients of the cheaper schemes who are hopping mad.

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David Oddsson, Iceland's Eurosceptic leader

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WITH his impish manner and unruly quiff of hair, David Oddsson, Iceland's conservative prime minister, has the look of a bard. Fittingly so, since he moonlights as a playwright and short-story writer. The reviews of his work have been mixed, but no matter: Mr Oddsson is not giving up his day job any time soon. He was elected mayor of Reykjavik, the capital, at 34 and left that job to become prime minister, in 1991, at 43. A decade on, he is Europe's longest-serving prime minister—and plans to extend his record by seeking re-election in 2003, when his current term is up.

Mr Oddsson is the polarising sort, the most liked and disliked politician in the island. "Oh yes, David likes his opinions," says a knitwear salesman. David, note, not Oddsson; in Iceland everyone, it seems, is on first-name terms. Such is the scale of the place that disgruntled voters often ring "David" at his office and get put through. Such is the scale that Mr Oddsson often takes the call.

There are only 280,000 Icelanders, but their island is better connected to the world, by air and sea, than are some European cities with far more people. It is connected in other ways too: Iceland claims to have the highest rate of mobile-phone and computer usage in the world. It maintains a dozen or so embassies, is a member of NATO (although it has no armed services of its own), and is acknowledged to have some of the world's leading experts on maritime law—the better to assert claims to the fishing grounds that were once its only significant natural resource and that still employ about a tenth of its workforce and supply two-thirds of its exports of goods. Its national football team in 1998 managed to beat Russia's. Remarkable? Mr Oddsson thinks not. "It's just that we keep forgetting how small we are."

Conservatives have always done better in Iceland than in the rest of the Nordic world, where social democrats predominate. Mr Oddsson's Independence Party has been in power, alone or in coalition, for most of the past 50 years. Icelanders put this conservative streak down to a strong work ethic: men and women do not retire until 70. But theirs is a distinctly qualified sort of conservatism; even entrepreneurial Icelanders want to see their country's generous welfare system kept in being. Still, Iceland has moved sharply to the right under Mr Oddsson. His party increased its share of the vote in the last general election, in 1999, to 41%, from 37% in 1995, and won 26 of parliament's 63 seats, enough for it to carry on governing in a cosy coalition.

The state still owned industries and banks when Mr Oddsson came to power. Icelanders thought their institutions too small and fragile for the free market. Mr Oddsson saw things differently. Red tape and protected markets, he reckoned, were holding his countrymen back. Old regulations were binned, financial markets created and listless state companies privatised. The results have been good. The economy has grown by a quarter since 1995. Real wages have risen and—more remarkably—the poor have gained most. Iceland expects to be free of public debt by 2004.

Unemployment is down to 1%, so low that Iceland's fish- processors have to import Poles to gut their fish. The last two state banks and Iceland Telecom are up for sale this year. There is talk of spending $1 billion to build a new aluminium smelter, Iceland's third, in the east of the country, tapping into its cheap and clean geothermal energy. Tourism continues to grow at a rapid pace. Iceland's farmers, long used to scratching a hard living from their unfertile land in its cool climate, now hope to export their clean beef and lamb at a premium in the wake of the foot-and-mouth outbreak in Europe.

Still, Mr Oddsson is not satisfied. He wants to slash profits tax from 30% to 15%, in part to lure back Icelandic companies registered offshore. And he is pressing Icelanders to shift from reliance on natural resources, including maritime ones, to a knowledge-based economy. Iceland should be as well-known for its software, he says, as for its fish. Companies such as deCODE, a genetics company that plans to sell data about the island's closely related people to others studying DNA, are already making an impact. Not before time, indeed, as the fisheries grow less abundant.

Still, to most people Iceland means fish. Mr Oddsson claims that its fishermen are five times more productive than Norwegian ones. It depends what you mean by "fisherman" and by "productive". Iceland has made a private, sellable commodity of its fishing grounds. Fishermen get a quota according to their experience, but they can, and some do, sell it on to bigger and more efficient companies. Unsurprisingly,

this is politically controversial.

Another hot political debate is over the continuing drift of rural Icelanders, especially the young and educated, to Reykjavik. Some 70% of Icelanders now live in or around the capital. One answer may be to move some government agencies away from Reykjavik.

What few people seriously debate is whether or not to join the European Union. Suggestions that Iceland should do so have been made cautiously on the left, and by some businessmen, who say they might be happy to swap the Icelandic krona, which fell in value by 13% last year, for the euro. “I don’t see any arguments for joining,” says Mr Oddsson bluntly. Iceland, he says, already gets access to the European market thanks to its membership, along with Norway and Liechtenstein, of the European Economic Area. Joining the EU proper, Mr Oddsson believes, would mean giving up sovereignty for a marginal voice, at best, in Brussels.

But then Mr Oddsson is a hardened Eurosceptic. He approves of enlarging the EU club only as a way to make Europe’s market bigger; he derides ideas for political union. “They never know where to stop. With every summit, it’s always one step closer to a federal Europe.” Pollsters say that most Icelanders agree with him, especially for fear that the EU would demand control over their fishing grounds as the price of admission. “You can be a fine European without giving up sovereignty,” says Mr Oddsson. Especially if you have lots of cod and capelin to keep you going.

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France

Fraternity equality

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EPA

Not easy to open

AFFIRMATIVE action at Sciences Po? This Paris academy is among the grandest of the *grandes écoles* which, since Napoleon, have provided France with its political, administrative and business elite. Yet, weathering a storm of protest, Richard Descoings, Sciences Po's modern-minded, 42-year-old director, has just persuaded its governing council into overwhelming support for his plan to democratise the admission process. From next September, the Institut d'Etudes Politiques, as it formally known—not that any member of the French elite would be caught dead using the full title—will accept a batch of students from suburban slums, on the basis of their school record and a 45-minute interview, rather than the terrifying examination that others who hope to join its 4,000 students must go through.

And then? Traditionalists say Sciences Po will start slipping down an American-style slope of lower standards, and the meritocratic foundation of modern France will be undermined for the sake of political correctness. Geneviève Zehringer, president of the body that represents France's leading academics, concedes that "the intention is good and the idea generous", but adds that the students who benefit will be stigmatised as the university's "boat people". Far better, she argues, to reform the school system as a whole, so that bright children in the "zones of priority education", ZEP in the French acronym, could be spotted early and properly prepared for the Sciences Po exam.

No doubt, but this is dreamworld, even were the teachers' unions not so truculent and the young—especially the black or Arab young—in the housing estates that surround France's bigger cities so disaffected. Even the young of the upper bourgeoisie have to be crammed in the best schools before they can think of sitting for entry to a *grande écol*e, let alone succeeding. As Mr Descoings points out, "I have been hearing 'We must democratise Sciences Po' for the past 15 years."

What he has in mind is "a limited step, but an extremely pragmatic one", with Sciences Po collaborating initially with four ZEP schools in the Paris region and three around Nancy, in the east. And the Americaphobes are wrong, he asserts: there will be no ethnic quotas, and though entrants from the ZEP will get financial aid they will have to reach the same academic standards as the rest.

The proof will come when the first ZEP entrants start graduating, five years from now. But whatever the method, the desirability of widening the student intake is plain. In theory, the entry examination is socially neutral; in practice, 71% of entrants to Sciences Po in 1998 came from a background of privilege, only 2.5% from the households of manual and unskilled workers.

To those who argue that elitism has served France well—the *grandes écoles* have educated three-quarters of its present government and half of its top 200 business bosses—Jack Lang, the minister of education, who has warmly supported Mr Descoings, replies that the world is changing: "We no longer have the right, in France, to maintain this ossified system. Cultural diversity will enrich every student, and finally lead us to question an abnormal and outmoded system in which the country's decision-makers all emerge from the same mould." The one—in their case, Sciences Po itself—that produced Mr Lang and Mr Descoings alike.

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The Netherlands

The flight of the train

Apr 12th 2001 | AMSTERDAM
From The Economist print edition

Dubious solution: magnetic levitation. Real problem: regional development

IT'S a glorious vision. It is 2010. From Schiphol airport and Amsterdam, across the pastures of the north-eastern Netherlands, at 400km an hour (250mph) on its elevated track, hurtles Europe's first long-distance magnetic-levitation train. A decades–old dream of German transport technologists has become reality. And, suddenly, the Netherlands' far north, peripheral and job-hungry, is less than an hour from its commercial heart—and, with an extra dose of vision, within commuting distance of Bremen and Hamburg too, for if the line goes this far, why not on into Germany? There's one snag: vision it is, and, after recent debate within the Dutch government, looks likely to remain so. The reason, unlike the might-be train, is down-to-earth: money.

Mag-lev technology is no novelty. Instead of running on rails, the vehicle is raised, within "guideways", by the magnetic force created by an electric current. A "linear" motor propels it. In a plain electric motor, a rotor, carrying the current, whirls round between two prongs of a fixed magnet known as a stator. A linear motor is a rolled-out version of this: the track serves as the stator, and the rotor—the vehicle—whirls along it. Two simple ideas in principle, both devilish in practice, let alone in hard, daily use.

Still, Germany's first experimental mag-lev vehicle appeared in 1971. Successive versions have been proven, say the makers, over 700,000-plus kilometres on a 31km test-track; and those makers are a consortium, Transrapid International, set up by some of the grandest names in German engineering—Siemens, Thyssen Krupp and, though they recently left it, Daimler.

So the dream could come true. Up in the Dutch north, in Friesland and Groningen, many people hope it will get the chance. The bustling Randstad, Holland's big urban cluster in the west, looks, and feels itself, near the heart of the EU. Those two northern provinces are on its edge: farmland, waterways and lakes, and (except at holiday times) not much else, bounded by the cold North Sea, the Ems estuary and—a big obstacle in pre-EU days—the German border.

The regional heart, Groningen city, with 175,000 people, promotes itself as a distribution centre, and indeed it has good road links, and canals—big carriers of goods in the Netherlands—east to the Ems ports and west to the Ijsselmeer. But passenger trains are slow, and air services, at least for now, non-existent: KLM's pilots' school is up here, but its flights are not. The city also has an ancient university and an institute of higher education, with 36,000 students in all. To its boosters, Groningen is a "city of knowledge", with a future in life sciences and information technology, a Cambridge of the Dutch fens.

Maybe, but not yet. Firms are coming in (as will, soon, the eastern end of a transatlantic fibre-optic cable and the jobs that it may bring). And the city's huge unemployment rate—almost 20%, even after a sharp fall since the mid-1990s—is in part due merely to students not rushing to get a first job. Yet essentially, in the EU economy as geographically, the region is out on the fringe.

So the Dutch have been studying hard how to bring their north-east into the country's busy mainstream—and reduce pressure on the crowded Randstad. Improve existing railways? Build a new high-speed track? Or go the whole hog, mag-lev? This would be speedier still; and, important for its (and north-eastern) economics, the train's comparative lightness could let it, unlike conventional trains, make several halts on the way without losing much time.

Though plain citizens wonder about the technology, the transport ministry fancies mag-lev. The environment one pictures the line striding on its pillars over the landscape, and is alarmed. The finance ministry says no: at maybe $6 billion, three times the cost of high-speed rail, mag-lev could not make money. So who would finance it? Even on their own estimate of $4.5 billion, the would-be builders—the Dutch arm of Siemens, with several Dutch partners—accept that the state would have to put in 30-50%.

The killer blow may have come already from Transrapid's own country. Europe's first long mag-lev line could have been in service by 2006, and that was no vision. After eight years of planning, parliamentary approval, and backing from the German government and railways, construction was due to start last summer on a line from Hamburg to Berlin. That February the government cancelled it: the investment and revenue figures just did not add up. If Germans will not invest, in German technology, on 290km between their two largest cities, would you on 200km from Schiphol to Groningen?

True, Transrapid has just signed a deal to build a 30km line between Shanghai's financial district and its airport. But to the still studying Dutch that hardly proves the point. And, though mag-lev against rail is what makes the headlines, the real issue is not just one of rival transport technologies. It is a much older chestnut: regional policy.

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Switzerland

Across the Alps

Apr 12th 2001 | GENEVA
From The Economist print edition

ALPINE people power is telling. In 1994, Swiss voters in a referendum backed a proposal put up by environmentalists to stop heavy lorries driving across the Alps by 2005. The inhabitants of the Mont Blanc region of France are trying to do the same. These efforts, reinforced by growing traffic jams, are reviving transalpine railways.

Locals in the narrow valleys that lead up to Alpine tunnels and passes complain about noise and pollution. Lorry drivers normally shrug off such thoughts, but they too have reason to worry. Counting in the French-Italian motorway that cuts through the last foothills of the Alps by the Riviera, Europe's booming north-south trade is funnelled through only five major crossing-points in Switzerland, Austria, France and Italy. About 5m trucks, 110m tonnes of goods and 150m people used these routes in 1999.

To cope with the tenfold expansion in goods traffic that came with the European Union, some 4,000km (2,500 miles) of motorway today criss-cross the Alpine region, compared with 100km three decades ago. Every day more than 5,000 trucks climb the access roads to the two-lane St Gotthard tunnel, the most direct route from Germany to Italy. On March 29th, a few minor incidents brought the motorway to saturation. Instead of the usual half-day journey, many trucks had to crawl in 15km queues for two days. It will happen ever more often.

Meanwhile, trains, which carry about a third of all transalpine freight, have to wind their way up and down steep gradients, slowly and fairly lightly laden, to reach the existing St Gotthard railway tunnel, which was opened in 1882. This route also has a limited drive-on "piggyback" service carrying lorries by rail. A similar one on another route is due to be improved by this autumn. But the Swiss government has far bolder plans: an $8.1 billion upgrade for the whole creaky north-south railway network, including a new pair of tunnels, 57km long, following roughly the route of the present St Gotthard rail tunnel, but at much lower altitude. When these are ready, around 2012, trains using larger wagons and containers will roll at 160kph. Rail-freight capacity will be more than doubled, from today's 20m tonnes a year to 52m, and passenger journeys shortened by 90 minutes.

Haulage companies hate the increased road taxes that Switzerland started to levy this year. But at least they accept, grudgingly, the merit of the Swiss road-rail alternative. Austria not only charges trucks crossing the Brenner pass but restricts their number. As for the Mont Blanc tunnel, between France and Italy, which used to take 4,000 trucks a day, it was shut after one caught fire in 1999, killing 39 people. Local mayors on the French side swear they will bar the heavier trucks when the tunnel reopens in September.

After the tragedy, France, Italy and Germany joined Switzerland and Liechtenstein last year in an

agreement to stop building new transalpine roads and to implement “polluter pays” policies. In January, the French and Italian governments announced that they would revive a project for a rail-freight corridor between Lyons and Turin. It will include a Swiss-style 55km tunnel, with a piggyback service for lorries.

The trouble with much of this is economics. Four-fifths of EU freight goes by road because road is generally cheaper, more reliable and, notably, more convenient for pick-up and final delivery. Truck-on-train gets round that last problem, but not others, even were the rail infrastructure and equipment adapted. Across the Alps (or under the Channel), it may be worthwhile, and enforceable; not elsewhere, if money is the measure—unless road taxes and tolls are rigged to make it so. Road-rail containers, with appropriate transfer equipment, look the obvious, and better, answer. The trouble is, they have looked it for decades; this too needs huge, multinational investment.

The Swiss justify their new road charges partly by the high cost of maintaining roads in the Alps. But they go further: what is happening is not just an attempt to meet road costs, or even to balance the rival costs of road and rail, but an overt experiment in putting a money price on the environment.

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Russia

Saving NTV?

Apr 12th 2001 | MOSCOW
From The Economist print edition

AN AMERICAN television tycoon looking for a new venture or a German chancellor touring Russia in the role of a debt-collector—the might-be saviours of media freedom come in odd shapes these days. Ted Turner and Gerhard Schröder have been among the few to whom Russia's NTV television station could look to save it from total control by a Kremlin-connected business.

NTV, the last national station that still dared to criticise official policy, fell into the hands of the state-controlled gas monopoly Gazprom earlier this month. Now NTV people hope that its founder, Vladimir Gusinsky, who still owns over 30% of the shares, can manage to sell a chunk of them to Mr Turner, bosss of CNN. Mr Gusinsky is still waiting for Spanish authorities to decide whether to extradite him to Russia on charges of fraud; Mr Turner is seen as the one man who could ensure the station some degree of independence from the Kremlin.

So, for a day, was Mr Schröder. Upon his arrival in Russia, he tried to get the message across that "a strong Russia, which Europe would like to see", should have media able to monitor the government and a government able to take the criticism. Mr Putin took him for a walk through St Petersburg, talked of Soviet debt and works of art stolen in 1945, and agreed that media freedom is a nice thing to have. But business is business, Mr Putin explained. And to the Kremlin, officially, the NTV affair is a business dispute.

The station's time is running out. While Mr Turner and Mr Gusinsky chaffer, Russian lawmakers are working hard on a bill that would limit foreign participation in Russian media. Scheduled for a first reading in the Duma at the end of this month, the bill would limit any foreign stake in nationwide media to 50% at most. The bill is rumoured to have originated in the Kremlin, though its sponsors say it is simply their own response to a looming "threat to Russia's national interests and its informational security." Some want the law to work retroactively, a serious threat to the many foreign-owned media already in existence.

But Russia's last independent television station may already be at the point where neither can Mr Turner help it nor can xenophobic lawmakers do it harm. The last blow to the station could come from its own journalists, many of whom are leaving the sinking ship, passionately exchanging bitter "open letters" in the daily press with their former colleagues. And with each new resignation, the number of people who take to the streets to protest against Gazprom's takeover is dwindling. In Moscow last week around 15,000 people showed up at one such rally. In St Petersburg a few days later there were only 5,000. In other towns the protests were too small for even NTV to report.

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Manufacturing

Trotsky and the Third Way

Apr 12th 2001 | SHEFFIELD
From The Economist print edition

Socialism and profit tend not to mix. But every rule has exceptions

Doris Fairweather and Walter Swann, the image of revolutionary socialism

REVOLUTIONARY socialism, as every reader of this newspaper knows, is no basis for a sound economy. Any business established on socialist principles, and owned and controlled by its workers, is bound, eventually, to fall prey to their interests rather than honouring those of its customers. At best, it will stagger along inefficiently; at worst, it will go bust (unless propped up by subsidies). But every now and again a company pops up which doesn't quite fit the theory.

Amongst the clutter of retail warehouses and ramshackle small businesses that line Penistone Road in Sheffield, the premises of Swann-Morton stand out like a Rolls-Royce in a scrapyard. Its buildings are trim, modern and smart. Its reception area—Art Deco style combined with steel and wood modernism—would do credit to an advertising agency. Inside, 280 employees beaver in equally spick and span machine-shops producing about 1.3m surgical and craft blades a day. Mick McGinley, the managing director, says proudly that the company supplies 95% of the scalpels used by Britain's National Health Service. It does well enough to offer its employees a 35-hour week, ten weeks' holiday a year, and private health care.

Actually, the company and the employees are pretty much identical to one another. The employees collectively own half the shares; the other half is held by a charitable trust. Every year, about 28% of the profits are distributed to the employees. Last year, £750,000 ($1.1m)—about £2,680 per person—were handed out, implying that the company's profits were £2.6m. Not bad, on a turnover of £13.7m.

This idyllic existence is the brainchild of Walter Swann, a Sheffield engineer who started work in 1917, the year of the Russian revolution. Amid the political convulsions that rippled westwards, he became a revolutionary socialist. But in 1932, during the depression, he disdained anti-capitalist agitation and set up his own business, to be run along socialist principles. He was evidently persuasive enough to talk several fellow workers into joining him, including Alfred Morton, a metallurgist, and Doris Fairweather, a supervisor who turned out to be a capable manager. The new company needed her guile: socialism—in the shape of a purchase tax levied by the post-war Labour government on the company's razor blades—nearly put it out of business.

To escape tax pressures, the firm shifted into making surgical blades, and hasn't looked back. Swann believed in rewarding his workers with the full fruits of their labour (and he secured them a supply of actual fruit by acquiring a large orchard in Cambridgeshire). But he also believed in recycling undistributed profits back into the company and in new technology: Swann-Morton claims to be the first surgical blade-maker to have installed, in 1964, radiation equipment to produce pre-packaged sterilised blades. Its reserves also covered the £5.9m cost of rebuilding its offices and extending the factory.

Although Swann died in 1980 (and Fairweather in 1984), his influence persists. With misted eyes, Mike Johnson, the sales director, says that "the company was his life and we were his family." (Swann did not have any other family, so there were no children to fight over their inheritance.)

This cult of personality is not the company's only unusual feature. As far as possible, it makes its own machines. Management fashions, such as out-sourcing and just-in-time manufacture, have passed it by. All the senior managers have risen through the ranks; the management style is largely dictated by the need to keep people in work. Mr McGinley has to rack his brains to remember when someone was last made redundant: in the 1940s—"but most eventually got their jobs back." More economical machines are in production, but the company will increase its output and keep everyone on.

British surgeons revere the Swann-Morton brand. Arnold Maran, a past president of the Scottish Royal College of Surgeons, says that he did not know there was any other type of blade. The company reckons it has 75-80% of the EU market, despite German and Danish competition, and a similar hold in Australia and New Zealand. Its one disappointment is the United States, where it has less than 5% of a market dominated by Bard Parker, an American firm with a long pedigree. The company is a little worried about cheaper scalpels being made by Indian and Chinese firms, but is confident its reputation for quality should sustain it.

An outsider brought in to run the firm could probably increase profits by contracting out the catering and selling off the orchards. But that would risk undermining the ethos which has kept the firm growing while most of Sheffield's industry collapsed. So, is this revolutionary socialism in glorious action? Not exactly. Mr Johnson says, "Mr Swann could be a socialist one day and a capitalist the next." He evidently discovered the Third Way before Tony Blair was born.

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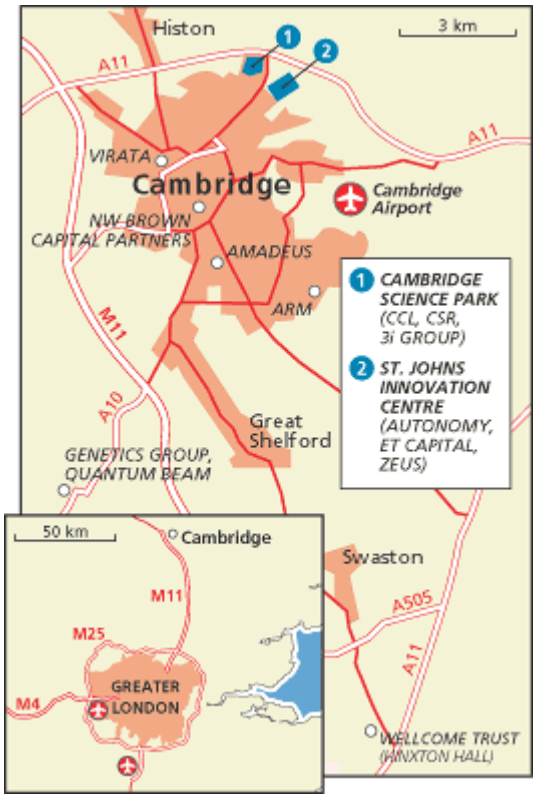
Silicon Fen strains to grow

Apr 12th 2001 | CAMBRIDGE
From The Economist print edition

The dotcom crash is not doing Cambridge's high-tech cluster much damage. Local planning policies are

AS CALIFORNIA'S venture capitalists stare bleakly at their "living dead" dotcom investments, what of "Silicon Fen"—the cluster of 1,600 high-tech firms that has grown up around Cambridge University and is the closest Europe comes to Silicon-Valley style entrepreneurialism? Cambridge has certainly felt the reverberations of the dotcom crash. The share prices of ARM and Autonomy, two of its highest-profile companies, have crashed. But Cambridge's problems are less to do with short-term market fluctuations than with Britain's ambivalent attitude to wealth creation.



Cambridge has been relatively insulated from the recent troubles of California's high-tech industry: the whole dotcom phenomenon passed it by. American venture capitalists poured billions of dollars into what Walter Herriot, the managing director of the St John's Innovation Park and one of the founding fathers of Silicon Fen, contemptuously calls "dogfood online". Some of these companies were based on interesting new business models. Some were not even that. Very few had technology to sell.

Silicon Fen, by contrast, focuses on patentable inventions. The most successful Cambridge companies of the last few years, such as ARM (advanced microprocessor design), Virata (software and semiconductors for broadband networking equipment) and Zeus (web server infrastructure) are all hard-core technology firms. Gordon Edge, the boss of the Generics Group, a recently-floated firm that incubates technology in its own labs before creating spin-out businesses, says that the real strength of Cambridge is "sophisticated science". One of its offspring is QuantumBEAM, a firm making lasers that transmit large quantities of data through office windows.

Another impressive new Cambridge company is Cambridge Silicon Radio (CSR), a spin-out from Cambridge Consulting (CCL), whose shareholders include Sony, Intel, Philips, Virata and ARM. Hermann Hauser, the founder of Acorn, a pioneer of personal computing, and of Amadeus Capital, is also an investor in CSR. He says that until the company demonstrated its single-chip Bluetooth wireless system last year, "nobody even believed it could be done."

Silicon Fen also differs from Silicon Valley in the way its companies are formed. Walter Herriot reckons that only around 5% of its start-ups get venture-capital backing. Many of its companies are spin-outs from other businesses, particularly from the big consulting firms, such as PA and CCL, and often survive by taking consulting work of their own. When they need cash, they tend to sell a bit of equity to somebody else in the industry. They rarely go to the money men.

This fear of finance constrains growth. John Snyder, the founder of Webtop—a sophisticated search engine—and an adviser to the recently-established Cambridge Entrepreneur Centre, says: "Too many people here don't understand what a good VC [venture capitalist] brings. There's a nervousness about giving up equity. The trouble with consulting work is that it distracts you from what you're doing. It can be very dangerous." Too many local start-ups, say the men who have made it, lack the ambition to become big. At around 15 employees, they stop growing. Robin Saxby, the chief executive of ARM, says that Cambridge lacks Silicon Valley's aggressive money-making urges. "Lots of the people here are still more interested in lifestyle than making money."

Mr Hauser has probably done more than anyone in Cambridge to foster the entrepreneurial spirit over the past quarter century. He says that the university's attitude, and that of the students, has changed over the past few years. In 1999, he helped to inaugurate a business-plan competition for undergraduates based on a model developed at American universities. "Three hundred people crammed the hall. For the first time I thought here is a British student body that feels like MIT or Stanford."

But while Cambridge's entrepreneurs are becoming more comfortable with capitalism, capital is in short supply in the area. Although the technology consultancies act as incubators, Amadeus and 3i are the only big local firms who specialise in technology investments. Aside from them, there are some smallish local operators—NW Brown Capital Partners has just closed the first round of its putative £50m Gateway Fund and ETCapital has backing for its still-open QTP fund from HSBC and Crédit Lyonnais. There are also some incubators, such as Oxygen, and a growing business-angel network.

Silicon Fen lacks the volume of Silicon Valley VCs who, for all their faults, bring more than money to the companies they invest in. Firms such as Kleiner Perkins, Accel and Benchmark provide advice and experience as well as access to business networks. They are also prepared to challenge the vanity of founders by recruiting the experienced managers that a start-up with a good idea often needs.

ARM's Robin Saxby doesn't think the shortage of VCs is a problem. He reckons that Cambridge is already "globally networked"; anyway, London-based VCs are only an hour or so away. Gordon Edge says he can raise capital from a range of big names—Nomura, J.P. Morgan and even George Soros. But it is not surprising if those whom the system has made think it works as it is. Those who it has failed are, by definition, not part of the pantheon.

If Cambridge could do with a few more well-networked VC firms, what it needs even more is room to grow—literally. The big players are unanimous about what they want most of all. "We just need space," says Mr Hauser. One issue has dramatised the problem; the rejection by the council and the Department of the Environment, Transport and the Regions of the Wellcome Trust's plans to build an extension of its Hinxton Hall research centre south of Cambridge. Mr Hauser blames the "Luddite" South Cambridgeshire Council dominated by the "shooting fraternity"and describes their opposition as "appalling and immoral". Mike Lynch of Autonomy just shakes his head, saying that most places would be falling over themselves to attract such a facility.

Nick Raynsford, the government's planning minister, says he is pleased that local councils and the regional development agency have now agreed to review the green belt around Cambridge, with a view to allowing growth west of the city and in a corridor on its north-east side. According to the biggest property consultants in the area, Bidwells, some office space is now being built speculatively, but the difficulty of extending the few business and science parks on the fringes of the city is placing a dampener on activity. David Lupson of Bidwells says: "Opinion around here is divided. A lot of people are just opposed to scale. It's not a good message to send out that you may not be able to grow your business here."

Another complaint is the dreadful transport infrastructure. The roads are jammed and there is no railway from Cambridge to Heathrow airport. Lindy Beverage, whose book "Cambridge Entrepreneurs" is published this month, says that the planning system is too slow to cope with the needs of high-tech firms. To make matters worse, tumbling tech shares give local politicians an excuse to brand the technology business as a flash in the pan.

"Cambridge is wonderful," says ARM's Mr Saxby. "But you have to remember that it is still at heart a quiet little market town. You have to leave if you want to grow." The Fen is good at creating small, clever companies, and at providing the intellectual firepower of much larger firms. But it's not Silicon Valley and, more importantly, deep down it probably doesn't want to be.

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Sacrificial spare-ribs

Apr 12th 2001
From The Economist print edition

WHEN disaster strikes, it is always tempting to believe that sinister forces are behind it, rather than the chaotic vicissitudes of chance. Conspiracy theorists in Britain have pinned the blame for foot-and-mouth disease (FMD) on, among others, Saddam Hussein and animal-liberation terrorists—more reassuringly tangible adversaries than, say, an innocently imported sandwich, or insanitary farming. The path of least resistance for the panic-stricken has often been to blame some unfortunate minority. In the case of FMD, the convenient ethnic scapegoat seems to have been Britain's Chinese community.

Rumours began to circulate last month that the source of the FMD outbreak was meat illegally imported from the Far East for use in Chinese restaurants. The theory is that the contraband found its way into swill consumed by pigs at Heddon-on-the-Wall, whence the disease is believed to have spread across the country. This hypothesis seems to derive from Ministry of Agriculture briefings, though the ministry denies responsibility, and says inquiries into the source of the outbreak are ongoing. Aggrieved Chinese community leaders argue that the allegation plays on a racist stereotype of Chinese people as smuggling omnivores—a permutation of the sort of racist slurs they suffer when pets disappear in the vicinity of Chinese restaurants, or the pigeon population of Trafalgar Square seems depleted.

As Hugh Pennington, professor of bacteriology at the University of Aberdeen, says, there is some circumstantial evidence to support the theory. The strain of FMD ravaging the countryside is most common in the Far East, and some food is illicitly imported into Britain from affected areas. Chinese restaurateurs say that such imports are small-scale, and that it is simply not economical to transport ingredients across the globe in bulk. But unproven though it is, the Chinese restaurant theory had enough dubious appeal for one tabloid to expound it beneath the headline "Sheep and Sow Source".

The fall-out from the FMD allegation has transcended bad puns. Thomas Chan, of the Chinese Takeaway Association, says that takings in Chinese restaurants are down by 40% in the Newcastle area and 30% in London—though the London outlets will also have been hit by the tourist downturn. There are around 10,500 Chinese restaurants and take-aways in Britain, and more than 70% of the 300,000-strong Chinese community is estimated to work in them or catering-related businesses. Jabez Lam, a community leader in London, says that there has been an increased incidence of racial abuse towards restaurant-workers since the rumour emerged.

The victims of FMD have been numerous and diverse. But in the case of the Chinese community, the long-term impact may be beneficial. The Chinese have hitherto been among the least politically conspicuous of Britain's ethnic minorities. Many older Chinese don't speak English. But the FMD-slur has galvanised the community: campaigners delivered a letter of protest to Downing Street; and on April 8th, London witnessed one of its more improbable demonstrations, when around 800 people marched from Chinatown to the agriculture ministry. Restaurants closed for two hours in solidarity. Nick Brown, the agriculture minister, was moved to denounce the racism that informed the slurs. Mr Lam has formed a new civil rights group to rebut the FMD allegations, which he hopes will outlive the virus.

Clearly, the consequences of disasters can be as unpredictable as their causes. Agricultural disease induces activism in Chinatown: we live in interesting times.

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Foot-and-mouth

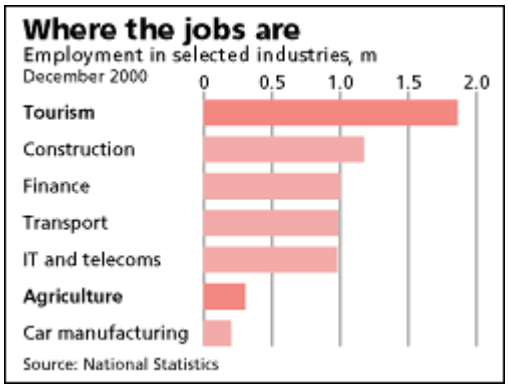
Oh to be in England

Apr 12th 2001
From The Economist print edition

Tourism has no political clout, so farmers get all the subsidies

FROM the start of the foot-and-mouth outbreak, the government's policy was focused on protecting farmers. By closing down the countryside it hoped to stop the disease spreading and thus limit the damage to agriculture. The consequence now seems to be far greater economic damage to a far more important business—tourism.

Tourism is a huge industry (see chart). It employs nearly half as many people as the entire manufacturing sector. (The author of this piece, who is also publisher of "The Good Hotel Guide", is part of that industry.) Over the past decade, it has created 20% of all new jobs and generated nearly £500 billion ($700 billion) in revenues. Yet it is disorganised and so has virtually no political clout, which is one of the reasons why nobody thought very hard about the impact the disease-containment strategy would have on it.



The farmers, whose industry employs one-sixth as many people as tourism, have their own government department, the Ministry of Agriculture, Fisheries and Food. They have a well-organised union to speak for them. They have lots of rich men among their number, who can corner their friends and relations in the corridors of power.

While the farmers get around £3 billion a year in subsidy, the British Tourist Authority gets £36m. Tourism does not even feature in the title of the Department of Culture, Media and Sport, under whose auspices it falls. Over the past 15 years, there have been at least a dozen junior ministers in charge of its fortunes. The current one, Janet Anderson, apparently committed the government, in an interview last month, to taking their holidays in the Lake District rather than in Tuscany. That may not further her career.

This week, the government put together a recovery plan for tourism. Measures include opening more attractions and informing people about what is open. But this is unlikely to mitigate much of the damage. Various studies suggest that tourism's losses could be four times higher than livestock losses. Farmers can get compensation for animals which have to be killed. Pubs and hotels whose custom has collapsed get nothing. Goldman Sachs predicts that, if the disease is not brought under control within the next few weeks, total losses could run as high as £6 billion, 0.6% of GDP.

The BTA reckons that spending by British tourists is down by 15%, while foreign tourists' spending is down by 25%. If the disease continues to spread into the summer season, the drop will be sharper. Civil servants have drawn up a list of 126 types of businesses that will be affected, including pubs, freight transport and rural estate agencies. The Brewers and Licensed Retailers Association, which surveyed 20,000 pubs across the country, found that one in three had been seriously affected; and in those pubs, average sales are down by 18%. Beer sales in March were 11m pints less than usual. Spending on sports from rugby to fishing is predicted, by analysts at Sheffield Hallam University, to fall by £750m this year.

British tourists' spending is redistributed, however, rather than vanishing altogether. So Blackpool, which depends almost entirely on domestic tourism, reports 14% more visitors this year. Superstore retailers are also doing well. Bluewater in Kent, Meadowhall near Sheffield and the Trafford Centre in Manchester all report flourishing trade. Travel agents specialising in foreign holidays are also doing well. The Association of British Travel agents says that a record 1m people are expected to escape Britain this Easter and take their holidays abroad.

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Internship for Britain section

Apr 12th 2001
From The Economist print edition

Applications are invited for a summer internship on the Britain section of *The Economist*. Pay nominal. Age and station immaterial. Applicants should send a piece suitable for publication in the paper, a covering letter and a CV to britain_intern@economist.com by April 26th.

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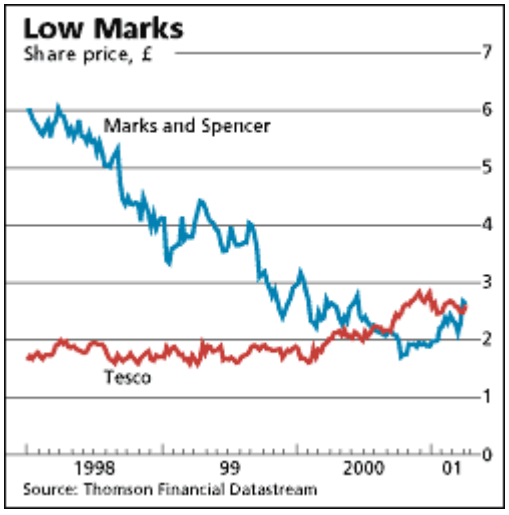
Retailing

Marks's failed revolution

Apr 12th 2001
From The Economist print edition

Two British retailers are in trouble. Marks and Spencer is under attack because it is making too little money. Tesco is under attack because it is making too much

WHAT has gone wrong for Marks and Spencer, once the icon of British retailing? A classic mid-life crisis, by the look of it. When it got into trouble in the late 1990s it compounded its difficulties by a desperate and doomed attempt to look young and exciting. Now its latest internal estimates suggest that the profit for the year just ended will turn out to be barely £430m, lower than forecast only a few months ago.



Three years ago Marks and Spencer was riding high. During the 1990s, with Sir Richard Greenbury as chairman and chief executive, profits doubled to £1.16 billion ($1.9 billion) in 1997-98. It was in competition with Wal-Mart for the title of the most profitable chain store in the world.

But investors wanted the top jobs split, so in February 1999, Sir Richard gave up being chief executive, and stayed on as chairman. Then things started to go wrong. Profits fell in 1998-99. Much of it was put down at the time to special factors, such as "overbuying to support expansion", costs associated with buying Littlewoods stores and a fall in overseas profits caused partly by the strong pound. But with hindsight, the company's reach may have exceeded its grasp.

Sir Richard resigned a year early in June 1999, because he could not get along with the new chief executive, Peter Salsbury. Mr Salsbury announced big reorganisations including a new global supply chain designed to get garments made wherever costs were lowest in the world. He was also seeking to turn the company into a global retailer.

But profits continued to fall. Most of the problems have been in clothing, which makes up 60% of M&S's business. Clothing sales are falling even though the market is growing. A new chairman, Luc Vandevelde, was brought in 15 months ago, with a bonus of £650,000 unrelated to the company's financial performance. He promised to turn the company round in two years, but when things still seemed to be going off the rails he fired Mr Salsbury last October.

Yet another reorganisation was announced last month, with some stores closing as a new boss of British retailing was hired. Now Mr Vandevelde is pulling out of France and selling Brooks Brothers in America, despite signs that the overseas bits are quite healthy. The French shut-down was announced so brutally that it broke local labour law, and has caused a national outcry in France (see article).

M&S's fall is being used as evidence to support a range of different prejudices. One columnist says it is a sign the British can no longer manage anything—railways, hospitals or shops. Another says it is because M&S pared things to the bone, cutting costs in the boom years, to boost profits and please the City (tut-tut), thus storing up trouble for the future.

A more prosaic interpretation, based on what insiders say, is that the management over-reacted to the first fall in profits. Mr Salsbury brought in no fewer than 12 teams of management consultants, including one whose job was to advise on the use of management consultants.

Most of the top managers on the buying side have been ousted. The consultants have been reorganising everything in sight. Staff, many of whom have been obliged to re-apply for their own jobs, are demoralised. The supply-chain reorganisation was botched. It upset suppliers. Deliveries, coming from

farther and farther away, became harder to control. Distribution costs rose. Quality fell. “They’ve lost control of their supply chain in terms of quality and cost, that’s the big problem,” says a former executive.

Between them, the management and the consultants came up with all sorts of exciting new ideas. The company rushed to develop new brands, and to bring in exciting new designers. The fashion magazines were enthusiastic about the new stuff, and gave it plenty of publicity; the (oldish) customers were less keen.

Now Mr Vandevelde says the company is going back to its old business of selling classic clothes. It looks as though he may have run out of new ideas. Perhaps that is a good thing.

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Tesco

Piling up the profits

Apr 12th 2001
From The Economist print edition

MARKS AND SPENCER'S failings underline Tesco's success. This week, Britain's largest supermarket group reported a 13% increase in its pre-tax profits to over a billion pounds. Until now, M&S was the only British retailer to have beaten a billion. The press responded with its usual enthusiasm for Britain's business successes, and decried the profits as evidence of Tesco's rapacity.

Tesco had a ready riposte. Operating profit margins in Britain remained steady in the year ending February 2001 at about 6%. Tesco says that it has spent £250m in the past year cutting prices. Last year, the Competition Commission cleared supermarkets of making excessive profits.

Irritating though it is to its detractors, Tesco's success comes from consistently good management and close attention to what customers want. This formula has turned a supermarket group once legendary for the "pile 'em high, sell 'em cheap" approach of its founder Jack Cohen into one that combines high quality and competitive prices. In 1995, Tesco toppled Sainsbury off its perch as the biggest supermarket chain. Since then Tesco's lead over the other supermarkets has increased steadily.

Like other British retailers, Tesco is operating in a testing environment. Food prices are falling; across the range of goods that Tesco sells, prices are stable. The company is responding by extending its range of products. Its 304 superstores devote 40-50% of their shelf space to non-grocery items such as clothes and products for the home. In the past year, Tesco, which is also Britain's biggest independent petrol retailer, has opened up a new front in electronic retailing, selling televisions, DVD players and mobile phones.

Despite such initiatives, the scope for growth in Britain is limited by Tesco's already commanding share of the market. Its real challenge at home is to fend off the competition, which is intensifying. Under the leadership of Sir Peter Davis, Sainsbury is fighting back. Wal-Mart, the world's biggest retailer, has gained a strategic foothold through its purchase of Asda, Britain's third-largest supermarket.

So Tesco's growth prospects now depend upon expanding overseas. Its ambition is to emulate the success of Carrefour, the French supermarket group, in becoming an international retailer. Tesco is concentrating on two principal areas, Central Europe and East Asia. It already has 68 giant hypermarkets overseas and is planning to increase this to 130 by 2002. Overseas sales currently amount to 13% of total turnover, but by 2003 this share is planned to rise to 30%.

Terry Leahy, Tesco's chief executive, revealed encouraging figures about the strategy this week. Total international sales grew last year by 43% to £2.9 billion. In Asia, they jumped by 85% to almost a billion pounds. Altogether, overseas operations contributed £74m to group profits last year, an increase of almost half. Tesco's operations in Hungary and Thailand moved into profit.

Abroad has generally been a disaster for British shops. Only this week, Sainsbury announced that it was pulling out of Egypt. It lost over £100m there. M&S is closing its overseas stores, including those in France. Tesco itself made a short-lived foray into the French market in the early 1990s when it bought and then disposed of the Catteau food chain. The difficulty for retailers is that their brands are generally difficult to transfer across frontiers. However, Tesco possesses genuine strengths in logistics and retail management which can be exploited in fast-growing emerging economies that are ill-served by traditional retailing outlets. Tesco could be the first British chain to prove itself a winner abroad as well as at home.

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What price a good school?

Apr 12th 2001
From The Economist print edition

SO YOU thought state education was free? Only bad state education, according to two new studies.

Dennis Leech and Erick Campos of Warwick University investigated the effect on house prices of two popular comprehensives in Coventry—Coundon Court and Finham Park. Coundon Court had 412 applications for 270 places in September 1999; Finham Park had 317 applications for 230 places. For a similar house, the researchers found that prices in the Coundon Court catchment area were 19% higher than in the rest of the locality; around Finham Park they were 15% higher.

But what comes first, the expensive houses or the successful school? It seems likely that expensive houses are bought by richer people whose children do better at school. But a study presented to the Royal Economic Society conference this week concludes that good schools also put up house prices.

Leslie Rosenthal, an economist at Keele University, uses routine OFSTED school inspections for his research. These can be expected to affect the quality of education at the schools that are visited, and their timing and choice of school is quite independent of local conditions. Using a database of 150,000 houses and flats sold in England in the late 1990s, Mr Rosenthal establishes that better pass-rates in state secondary schools are directly responsible for raising the price of houses in the adjoining area.

For Mr Rosenthal, there is another moral to the tale. He estimates that a five-point rise in the pass-rate (the percentage of pupils getting five or more grades A-C at GCSE) is worth about £450 on each house in the vicinity. That translates, he says, into an annual value to society of £450m—worth three-to-four more teachers per school. However, this conclusion may be questionable, since parents are paying a premium for especially good schools, not for nation-wide improvements.

For the ambitious but cost-conscious parent, Mr Leech and Mr Campos thoughtfully work out what the price premium they identified costs in extra mortgage payments (see chart). The extra annual outgoings look sizeable—except to those paying private school fees. Private schools cost up to £15,000 a year for boarding; £10,000 for day pupils. On that basis, the good-state-school premium is a bargain. Get down to the estate agent now.

The price of a good education
House-price premium in good-school catchment area

School	Location	Average price outside, £	Average price inside, £	% premium	Extra annual mortgage payment* £
Coundon Court	Coundon/Radford	53,510	63,677	19	700
	Allesley/Eastern Green	111,199	132,327	19	1,455
Finham Park	Earlsdon/Beechwood Gardens	97,362	111,937	15	1,020

Source: Dennis Leech, University of Warwick
*Assuming interest rate of 7%

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Bagehot

The royal appendix

Apr 12th 2001
From The Economist print edition

SINCE now is the time for all good Britons to come to the aid of the tourist industry, Bagehot is delighted to use this space to assure would-be foreign visitors that even if this country's rural footpaths remain closed by foot-and-mouth disease, its royal family remains open—wide open—for business. Though it is no longer British practice to drown its princes in butts of malmsey, the royal pageant marches gaudily on. In the language of the Michelin Guide, the spectacle is well worth a detour. This is no mummified monarchy, to be ogled in wax museums. As in Morocco, or Zululand, royalty is a living institution, part of the form if not quite the substance of government, and still capable, on occasions, of filling headlines and agitating politicians. The "Sophie tapes" have provided just such an occasion.

Sophie Rhys-Jones became the Countess of Wessex by marrying the queen's third son, Edward, the Earl of Wessex. They are a working couple: he a film producer and she chairman of a PR firm, R-JH Public Relations. The tapes in question are recordings of conversations between the countess, her business partner, Murray Harkin, and an "Arab sheikh" whom they believed to be a potential client but who, like all too many Arab sheikhs apparently bearing gifts, was really just another wired-up undercover reporter for a tabloid newspaper. A transcript in last Sunday's *News of the World* has the countess saying things about British public figures which it is safe to assume she would not say to their faces. She says that Tony Blair, the prime minister, thinks he is president; that he is "ignorant" of the countryside and that his wife "hates" it; that William Hague, the Conservative leader, may be intelligent but "sounds like a puppet"; that the recent budget was "a load of pap". When the countess is not present, Mr Harkin gossips merrily on tape to the presumed sheikh about whether her husband is gay, confesses to liking the "odd line" of cocaine and appears to suggest that he would be happy to procure some "nice boys" for an entertaining dinner party.

As if it were not bad enough for a PR professional to fall hook, line and sinker for a classic tabloid sting, the countess made her predicament worse by an artless attempt to wriggle out of it. In return for what she took to be a promise not to publish the original transcript, she gave the paper that entrapped her an exclusive interview, in which she insisted to bemused readers who had never even wondered that her Edward was not gay. But even this self-inflicted humiliation was to no avail. A week after plastering her interview across its front page, the *News of the World* decided to publish a transcript of the original tapes anyway. The countess should not have been surprised. This was, after all, the same high-minded tabloid whose courageous "naming and shaming" campaign against paedophiles last year led indirectly to at least one high-minded physical assault on a paediatrician. This time, its excuse for breaking its word was that once rival newspapers had printed their own wild allegations about what the tapes contained, it had a duty to set the record straight.

In fairness to all concerned, the record, now that it has been straightened, turns out to be somewhat dull. Mr Harkin comes over as a racier fellow than you would expect to find in a firm with pukka royal connections. But the countess's own taped remarks are hardly inflammatory. They are not even original. Frankly, you do not have to be seventh in line to the throne to hear on the grapevine that Mr Blair sees himself as a president, or notice that Mr Hague has a funny voice. Though it was not clever of the countess to pass such observations on to an Arab sheikh, still less a bogus Arab sheikh, on first acquaintance, this is not the stuff of which constitutional crises should be made. At most, the Sophie tapes bear on the moderately interesting but minor question of whether it is possible for a moderately interesting but minor royal to work in a sensitive career such as public relations without becoming entangled, by accident or design, in a conflict of interest. However that question is answered (as a first stage, she is stepping down as her firm's chairman) it ought not to affect the future of the monarchy as a

whole. So why has this affair caused such a commotion inside the House of Windsor? And why the disproportionate volume of newsprint dedicated to it?

An anatomical analogy may help. The function of the royal family in the British body politic is not dissimilar to the function of the appendix: a vestigial organ, says the encyclopaedia, that serves no current purpose and is believed to be gradually disappearing over evolutionary time. Opinion polls bear this out. A recent MORI poll found that although a majority of Britons would vote to retain the monarchy if asked in a referendum, a majority also expects it to have disappeared by the next century.

The average person does not volunteer to have his appendix removed unless it is in danger of rupturing. But whenever Britain's royal appendix grumbles, for no matter how trivial a reason, plenty of people seize the opportunity to debate the monarchy's future. As it happens, the republicans in this debate have a good case to make. But they are compelled to seize upon trivial opportunities to make it because governments see no gain to be had from giving them a non-trivial opportunity. Mr Blair is certainly not their man. He has already changed much of Britain's constitution. He wants to make a mark on history and his party contains many vocal republicans. Some MPs are now demanding closer financial scrutiny of the royals. But this is the prime minister who leapt instinctively to the defence of the monarchy after the death of Princess Diana, and seemed only to profit from it. For the present, there are fewer safe votes in republicanism, however strong the constitutional case for it. Let the royal appendix grumble. It will take a lot more than a garrulous countess and a bogus Arab sheikh to make removing it look attractive to any prime minister.

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London

Before the flood

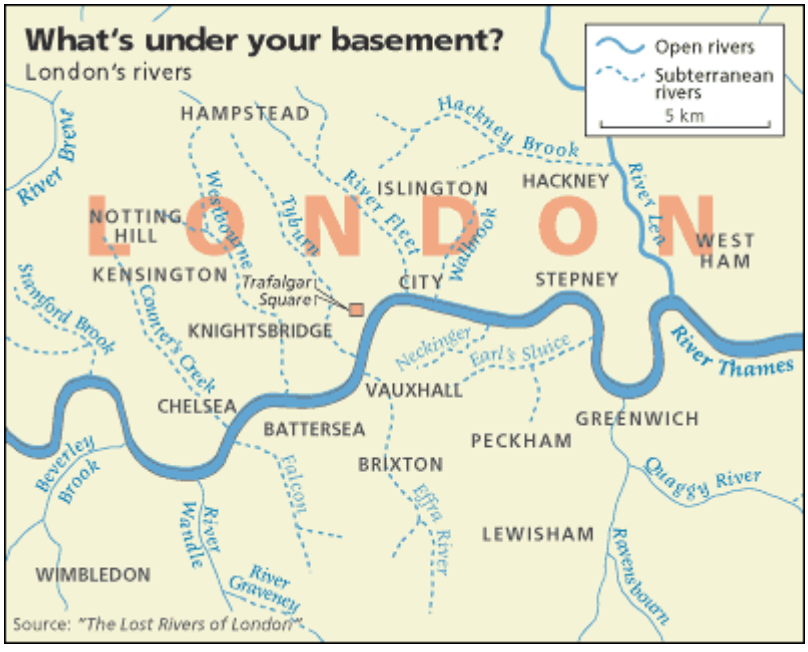
Apr 12th 2001
From The Economist print edition

The water table under the capital is rising to ominous levels

SO COULD nature throw anything else at us after this pestilential winter? Yes, actually. After foot-and-mouth disease, tuberculosis outbreaks and the heaviest rainfall since the 17th century, it seems that Londoners will now have to get used to some more unusual sights.

All over the capital, boreholes are being sunk to pump out the water that threatens to engulf London from below, just as large tracts of Sussex and Kent were submerged by the water from above at the end of last year. Since the 1960s, the water table below central London has been rising by about three metres (or ten feet) a year. The Environment Agency estimates that in the last century, the water table sank to 93 metres below the ground level of Trafalgar Square. Now it has risen to just 40 metres below the square, which means that if left unchecked central London could be flooded within 20 years. Hence the boreholes.

The problem is historical. Some 200 years ago, the water table lay much closer to the surface. The modern city was built over a multitude of rivers and streams, which gave their names to some of London's most celebrated roads, such as Fleet Street and Westbourne Grove (see map). But then industrialisation came, and breweries, paper mills and other factories extracted millions of gallons for commercial purposes, more than could be replenished by the natural seepage of rainfall into London's water table from the Thames Valley. And as the factories moved away from the city after the war, so the water level began to rise again.



This could have damaging consequences for everything from the city's miles of underground wiring to the tunnels of the London Underground. To say nothing of the effect that it could have on the foundations of many of London's buildings, as the rising water saturates the clay on which they stand. So in 1992 interested parties such as Thames Water, British Telecom, the Association of British Insurers (ABI) and the Corporation of London came together to form an umbrella organisation to monitor the situation, The General Aquifer Research, Development and Investigation Team (GARDIT). The lead agency now tackling the problem is Thames Water. It estimates that London will eventually need about 50 boreholes. For now, a borehole such as the one in Brixton, which opened last November, is pumping out 10m litres a day.

This sounds like a lot of water, but is it enough? The Environment Agency estimates that a total of about 50m litres of water a day is currently being pumped out from beneath London. But that figure needs to be doubled within ten years in order to stabilise the water level.

Thames Water claims that the rate of increase in the water table is slowing from about three metres to two metres a year. But that rate of increase still has to come down further, and quickly. Some of the agencies originally involved in GARDIT have become impatient with the slow rate of progress. Earlier this year, a report by the Building Research Establishment for ABI concluded that in fact there has still not been any halt in the water-level rise. “Therefore, until the GARDIT strategy is fully carried through, at some point buildings could suffer the predicted foundation damage.”

All eyes will now be on the publication of the next GARDIT report in July. That may show that the water level is still rising by an unacceptable amount. If so, questions will be asked as to whether a commercial company such as Thames Water should be the lead agency on such a big environmental problem that concerns so many interests across London and the Thames valley. In the past, governments have refused to take any interest in the problem, but as the water table rises, that attitude may have to change. Time for Ken Livingstone, London’s supermayor, to swoop in?

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War, famine and oil in Sudan

Apr 12th 2001 | RUMBEK
From The Economist print edition

Reuters

Sudan's government has adopted a brutal new policy of clearing the oil areas

Get article background

"ALL this because of oil," laments Steven Mangong. Once a farmer in a small village in the heart of southern Sudan's oil region, Mr Mangong is now living destitute in a refugee camp at Rumbek, 300km (185 miles) away. He and his family were forced to flee two months ago. "First I heard shooting," he said, "then the sound of tanks and after that the bombs started to fall. We stayed in the area, hoping to be able to return. We have done that several times before. But this time the Arab militias and the government soldiers did not leave." Scores of others at the camp tell the same story: "We southerners have been fighting the Arabs for a very long time, but this is a different war now. They fight for our oil," said a fellow farmer. As an act of deliberate policy, the government appears to be depopulating their area.

A war between Sudan's Arabic-speaking, Muslim north and the black African, Christian and animist south has swung back and forth for most of the past 45 years. But the discovery of at least 2 billion barrels of oil in a disputed region between north and south has changed the tactics of the government in Khartoum. Until the end of 1999, when the oil first started to flow, the government used to arm Arab militia groups in the border zone, and encourage them to raid their southern neighbours for cattle and slaves. This produced seasonal skirmishes, and caused distress, but did not result in a shift in population. Now the government wants the southerners out.

Oil has also given the government the means to buy new weapons, and to set up its own arms industry. A year ago it launched an offensive in the region south of Bentiu, sending its newly-armed militias to drive out the inhabitants, or even to exterminate them. The tales told by refugees at Rumbek are confirmed by a recent report by Christian Aid, a British-based charity. This finds that the government and the militias it sponsors are mounting "a systematic scorched earth policy in and around the oilfields". It claims that tens of thousands of people have been killed since the construction of the oil pipeline to the coast began in 1998.

The southern rebel movement, the Sudan People's Liberation Army (SPLA), has neither the firepower nor the unity to prevent the clearances. Last week it threatened to attack foreign oil workers, but it is unable to get near them at present or to offer any protection to southern villagers under attack. Moreover, in the 1990s the government exploited a split in the SPLA's ranks, driving a wedge between its two largest ethnic groups, the Dinka and the Nuer, both of which live in the oil zone. Six factions led by local warlords are operating in the Nuer districts, living by the gun and carving out their own territory. Only one is linked to the SPLA.

Hunger, caused by nature and by man

Sudan is expected to experience two famines this year: some 3m people are at risk. One has already started, mainly in Darfur and Kordofan provinces; it is caused by drought. The other, which could affect 2.4m people, would be largely the result of war. Earlier this year the UN's World Food Programme appealed for $135m for Sudan, but raised almost nothing. On March 29th, the UN appealed once again.

The emergency casts a spotlight on the role of the oil companies operating in Sudan. The companies will doubtless say, with truth, that they are providing food, shelter and development help for the victims. The catch is that they will present themselves as part of the solution, whereas some would argue that they are part of the problem. That is because they can operate only with the approval of a government that is ruthlessly clearing local people out of the oil areas, and using its oil revenue to finance the war.

Some of the companies, China's National Petroleum Corporation, for instance, or Malaysia's Petronas, are probably safe from domestic protest. But western firms—Canada's Talisman Energy and Sweden's Lundin Oil—are under mounting pressure from human-rights groups to pull out.

In America, the administration is being assailed by an increasingly angry lobby that includes black Americans, shocked by reports of slavery, and fundamentalist Christian groups, which support the south because it is partly Christian. The administration is also under pressure from American oil companies, several of which would like to join their rivals in exploiting Sudan's new riches. After a Khartoum-backed assassination attempt on Egypt's Hosni Mubarak in 1995, America imposed sanctions on Sudan, forbidding investment. But the companies are reluctant to risk association with Sudan until it changes for the better, and they would like America to help bring about that change. George Bush, reacting to these various lobbies, has ordered a review of American policy.

But prospects for peace have seldom looked more remote. One bid initiated by Sudan's neighbours is moribund; another sponsored by Egypt and Libya is unacceptable to the rebel movement because it is predicated on the unity of Sudan. The rebels are standing out for a referendum on southern independence, to which the government reluctantly agreed in 1994. So long as the fighting continues, there is no chance of this.

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Somaliland

The nation nobody knows

Apr 12th 2001 | HARGEISA
From The Economist print edition

A COMMEMORATIVE plaque marks Somaliland's first set of traffic-lights, planted in its sandy capital Hargeisa six months ago. When you are nation-building on a shoestring, a little means a lot.

EPA

Egal enjoying non-recognition

As it happens, Somaliland, a decade after breaking away from Somalia, has achieved quite a lot. For a start, it has peace. Through its upper house of clan elders, it has a broadly representative government. In Muhammad Haji Ibrahim Egal, it has a wily and popular president, whose promise of democratic elections is generally believed. Somalia, despite its multi-sponsored transitional government, has none of these things.

But Somaliland is not recognised as independent by anybody (nor, for that matter, is Puntland, another breakaway state with less clear ambitions). This disadvantage leaves Somaliland's 2m people—about half as many as Somalia has—dangerously reliant on the goodwill of neighbours, and of aid donors who slip it money unofficially without the usual host-donor government contacts.

The current ban on livestock exports from the Horn of Africa to the Gulf states underlines this dependence. The six-month ban was imposed at the end of last year for fear of Rift Valley fever, which has been found nearby but not in Somaliland or Somalia. Unfortunately, Somaliland is in no position to argue. Saudi Arabia, the biggest importer, is firm friends with the transitional government in Somalia, which maintains that Somaliland remains within its orbit. Mr Egal's farm minister admits that he would not even know which Saudi official to petition.

Somalia is not catastrophically affected by the ban. But Somaliland's government has lost duties worth $15m from its $25m budget. Overseas remittances, estimated at $500m a year, are now the country's only major income. Mr Egal claims success in diversifying the economy. But the piecemeal efforts to revive ancient trades in frankincense, henna and hides do not begin to make up for livestock. And though there are rich seams of coal, and probably oil, under Somaliland's desert, without the investment that only recognition could bring, there is no way of bringing the stuff to the surface.

Some people put their faith in a recent survey that suggests the country is bursting at the seams with precious stones. The discovery of a reef of high-quality emeralds several miles long bears this optimism out. At the very least, small-scale and low-tech gemstone-mining could be a fall-back for the country's beleaguered herders.

If the government were to act true to form, it would establish the gem industry around the clans, thereby avoiding concession disputes. In that way, every clan member should, in theory, get a cut. But the mining minister was recently fired for fixing prices for his own business interests. His rather slow-witted replacement maintains the fiction that the clans respect the government's ownership of mineral resources.

Somaliland's trump card is its port at Berbera. Since falling out with Eritrea and the port-state of Djibouti, Ethiopia, the region's landlocked superpower, has hit on Berbera as its easiest access to the sea. Last year's famine in Ethiopia set a precedent, with 100,000 tonnes of food aid coming through Berbera,

which had previously been written off as too small and too decrepit.

Ethiopia has recently recognised Somaliland passports, and Ethiopian Airlines has announced the first scheduled flights to Hargeisa. Mr Egal has even let slip that Somaliland's currency reserves are sitting in the State Bank of Ethiopia in Addis Ababa, pending the opening of a Hargeisa branch. Does this suggest that Ethiopia may be about to recognise Somaliland's independence? Probably not. For a start, Ethiopia would be too worried about the effect this precedent might have on its own lawless Somali clans. It is happy to keep on good terms with Somaliland, and give it enough goodies to gain access to Berbera, but that is about it.

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Iran

Will he, won't he, run again?

Apr 12th 2001 | TEHRAN
From The Economist print edition

Against a background of mounting repression, President Muhammad Khatami keeps Iran guessing

CHARGED with conspiring to overthrow Iran's Islamic system, 42 nationalists were arrested on April 7th, the most in one day since the conservatives mounted their counter-attack against the reformists gathered around President Muhammad Khatami. Among the arrested were members of the secular-leaning Freedom Movement, including two ministers from the provisional government that briefly held office after the 1979 revolution. About 65 "religious-nationalists", as they are known in Iran, have been seized over the past four weeks. All activities of the Freedom Movement, which had been largely ignored as a political irrelevance since late 1979, have been banned.

Reuters

Khatami and Khamenei seeking togetherness

The accusation that a small group of mostly elderly intellectuals could be capable of overthrowing the Islamic state has been ridiculed by Iranians on the pro-reform side of the political divide. But prominent conservatives, including Ayatollah Ali Khamenei, the supreme leader, have given warning of the dangers of a creeping coup: an erosion of Islamic and revolutionary values and political structures wrought by a pro-western "fifth column" within the system, in hand with religious-nationalist "outsiders" and even militant groups in exile.

With under two months to go before the presidential election on June 8th, the conservatives' warnings are at a crescendo. "Those seeking a quiet coup are guilty. The sentence against them is hanging," declared Ahmad Khatami, a hardline ayatollah (no relation of the president's). One death sentence has already been passed, though not carried out, on Hassan Yusefi-Eshkevari, an outspoken activist who has become the first cleric to face the gallows for apostasy since the revolution.

The mass closure of pro-reform publications and the scores of arrests and trials of the past year—of editors, journalists, politicians and student leaders—have brought the process of reform to a standstill, and the atmosphere of confrontation close to boiling-point. Mr Khatami this week criticised the arrests, though in his usual manner only mildly, and appealed to Iranians to eschew excess.

On the issue that obsesses the country—whether he will run for a second term—Mr Khatami has remained silent. Some interpret his recent speeches in defence of civil rights and Islamic democracy as a signal of his candidacy. But his televised address on March 20th, marking Iran's new year, sounded like a sombre valedictory. Recent events have driven home his lack of power inside Iran's complex system of parallel structures. Reformists have noted with alarm the judiciary's use, not of the police or the intelligence ministry, but of the Revolutionary Guards to investigate and carry out its will.

Iran has not faced such a period of political uncertainty since the death in June 1989 of Ayatollah Ruhollah Khomeini, founder of the revolution. His mantle of supreme leader was passed to Ayatollah Khamenei, whose clerical credentials are surpassed by others, and whose political authority depends on his ability to narrow the gulf between factions. Mr Khamenei and Mr Khatami, also a cleric and also a product of the system, came together when riots gripped Tehran in the summer of 1999, and the two men are believed to be trying again to find common ground that would allow a gradual programme of defined reforms to move ahead.

The ultra-conservative clerics, who control the judiciary, are said to be desperate to stop the president from running, lest a landslide on the scale of his 1997 victory should give him a resounding popular mandate.Yet Mr Khatami's main lever against mainstream members of the conservative establishment is his implicit threat not to run. His genuine popularity could be the glue that binds the Islamic system.

And, as the left-wing speaker of parliament, Mehdi Karrubi, said this week, a regime without the support of the people will not survive.

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Nigeria

Boiling oil

Apr 12th 2001
From The Economist print edition

WHO gets the oil money? With the country expected to earn $14 billion from oil this year, the government asked Nigeria's Supreme Court this week to rule on how the money should be allocated.

Nigeria earns very little from anything else, so what happens to its oil money is crucial. Oil contributed to civil war in 1967. Later on, military regimes stole much of it. But when Olusegun Obasanjo was elected president in 1999, there seemed at least a chance that the money might go towards a village school rather than a flash car for a politician.

The court must decide whether the federal government or the governments of the oil-producing states get the money from off-shore production, which will soon account for the bulk of Nigeria's 2m barrels-a-day oil flow. The case, which has been adjourned until May 21st, raises the stakes in the four-cornered battle for oil revenue between the central government, the 36 state governments, the six oil-producing states, and the people who live in those six states.

Since 1971, all off-shore oil revenue has gone to the federal government. The oil-producing states of the south-east are now demanding a slice of it. Or, indeed, all of it: they have long argued that the oil money should go to the producing states which would then pay tax to the central government.

The oil-state governments are angry. But not as angry as the people who live on top of the oil wells and have seen little revenue trickling down from either the federal or the state governments. They are among the poorest in Nigeria, their farms cut by pipelines, their air and rivers polluted with oil and smoke. Local activists in the Niger Delta, which produces most of Nigeria's oil, regularly kidnap oil workers for ransom or smash installations, sometimes seriously cutting production. Off-shore oil is not safe since oil platforms have also been attacked.

Mr Obasanjo tried to come to an agreement with the oil-producing states by allotting them 13% of on-shore oil revenue, as prescribed by the 1999 constitution. He has left it to the Supreme Court to decide about off-shore oil. But this may not be the end of his troubles. People in the oil area are unlikely to be satisfied whatever happens: earlier regimes bypassed state governments by channelling the money through local authorities, but again most of it ended up in somebody's pocket. And the demands of the south are upsetting the north, whose politicians are threatening to deny the south farm products if it gets much of the oil money.

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The fear of flying in Somali air space

Apr 12th 2001 | NAIROBI
From The Economist print edition

ONE of the disadvantages of not being diplomatically recognised is that Somaliland's air space officially belongs to Somalia. Yet 6,000 passengers a month pass through Hargeisa airport, while Mogadishu airport, the main one in Somalia, has been closed since 1995, when the UN left it for the militias to fight over. So, in a sensible compromise, Somali air-traffic control is run from Kenya's capital, Nairobi.

The Mogadishu Flight Control Centre was set up in a modest house in Nairobi after the UN pulled out of Somalia. In the sitting-room, radio operators plot aircraft on a wooden control-board knocked up by a local furniture maker. "Saved us a load of money," says the chief controller. Though crude, the system works well—except that it is using the same radio frequency as Kenyan air-traffic control down the road, causing constant confusion.

Before Somalia's interim government was set up last year, Somaliland wanted the centre moved to Hargeisa. But then Somalia demanded that it should go to Mogadishu, even though almost no aircraft land there, apart from those bringing in Kenyan khat, the militiamen's drug of choice. Now Somaliland says it is happy with things as they are. If the centre should return to Mogadishu, Somaliland threatens to close "its" air space. How it would do so nobody knows, but the threat could cause over a thousand commercial flights per month to be rerouted, including flights by Air France and Emirates Airlines.

Somaliland has other aviation worries. For a start, the runway at Hargeisa is almost worn away. Then there are the goats. Ever since a herder was over-compensated for two luckless animals that wandered into the path of a Kingair, nomads have been driving their herds to the runway in droves.

Over Mogadishu, the problems are different. Last year, an Airbus carrying potential investors from Malaysia swooped low over the city for a photo opportunity. Badly shot-up, it made it down the Indian Ocean coastline to Mombasa, just.

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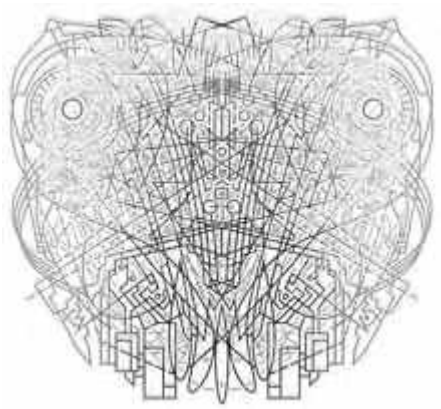
The beast of complexity

Apr 12th 2001
From The Economist print edition

The future of software may be a huge Internet-borne cloud of electronic offerings from which users can choose exactly what they want, says Ludwig Siegele



STUART FELDMAN could easily be mistaken for a technology pessimist, disillusioned after more than 25 years in the business of bits and bytes. As a veteran software architect, the director of IBM's Institute for Advanced Commerce views programming as all about suffering—from ever-increasing complexity. Writing code, he explains, is like writing poetry: every word, each placement counts. Except that software is harder, because digital poems can have millions of lines which are all somehow interconnected. Try fixing programming errors, known as bugs, and you often introduce new ones. So far, he laments, nobody has found a silver bullet to kill the beast of complexity.

But give Mr Feldman a felt pen and a whiteboard, and he takes you on a journey into the future of software. Revealing his background as an astronomer, he draws something hugely complex that looks rather like a galaxy. His dots and circles represent a virtual economy of what are known as web services—anything and everything that processes information. In this "cloud", as he calls it, web services find one another automatically, negotiate and link up, creating all kinds of offerings.

Imagine, says the man from IBM, that you are running on empty and want to know the cheapest open petrol station within a mile. You speak into your cellphone, and seconds later you get the answer on the display. This sounds simple, but it requires a combination of a multitude of electronic services, including a voice-recognition and natural-language service to figure out what you want, a location service to find the open petrol stations near you and a comparison-shopping service to pick the cheapest one.

But the biggest impact of these new web services, explains Mr Feldman, will be on business. Picture yourself as the product manager of a new hand-held computer whose design team has just sent him the electronic blueprint for the device. You go to your personalised web portal and order the components, book manufacturing capacity and arrange for distribution. With the click of a mouse, you create an instant supply chain that, once the job is done, will dissolve again.

Visions, visions everywhere

All this may sound like a description of "slideware"—those glowing overhead presentations given by software salesmen that rarely deliver what they seem to promise. Yet IBM is not the only one with an ambitious vision. Hewlett-Packard, Microsoft, Oracle, Sun and a raft of start-ups are thinking along the same lines. Unless they have all got it wrong, companies, consumers and computers will one day be able to choose exactly what they want from a huge cloud of electronic offerings, via the Internet.

The reality will take a while to catch up; indeed, it may turn out to be quite different from today's vision. But there is no doubt that something big is happening in the computer industry—as big as the rise of the PC in the 1980s that turned hardware into a commodity and put software squarely at the centre of the industry. Now it looks as though software will have to cede its throne to services delivered online.

Not that software as we know it will disappear. Plenty of code will still be needed to make the new world of computing run, just as mainframe computers are still around, though in a much less dominant position. But the computer business will no longer revolve

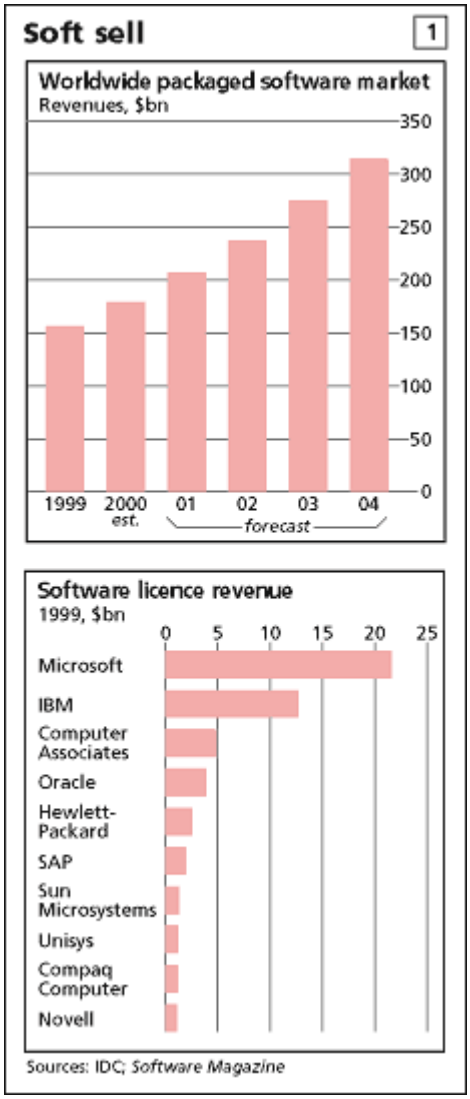
around writing big, stand-alone programs. Instead, it will concentrate on using software to create all kinds of electronic services, from simple data storage to entire business processes.

The agent of change is the Internet. For a start, it has changed the nature of software. Instead of being a static program that runs on a PC or some other piece of hardware, it turns into software that lives on a server in the network and can be accessed by an Internet browser. Already, most big software firms offer versions of their programs that can be “hosted”, meaning that they can be delivered as a service on the network.

But more importantly, the Internet has turned out to be a formidable promoter of open standards that actually work, for two reasons. First, the web is the ideal medium for creating standards; it allows groups to collaborate at almost no cost, and makes decision-making more transparent. Second, the ubiquitous network ensures that standards spread much faster. Moreover, the Internet has spawned institutions, such as the Internet Engineering Task Force (IETF) and the World Wide Web Consortium (W3C), which have shown that it is possible to develop robust common technical rules.

The first concrete result of all this was the open-source movement. Since the mid-1980s, thousands of volunteer programmers across the world have been collaborating, mostly via e-mail, to develop free software, often taking Internet standards as their starting point. Their flagship program is Linux, an increasingly popular operating system initially created by Linus Torvalds, a Finnish programmer.

The emergence of web services is a similar story, even though at first glance it may not look like it. The computer industry and other business sectors are collectively developing the next level of Internet standards—the common glue that will make all these web services stick together. Hence the proliferation of computer-related acronyms such as XML, RosettaNet, ebXML, XAML, SOAP, UDDI, WSDL and so on. This alphabet soup illustrates a potential problem for the new web services: they too could become victims of their own complexity.



Why should anyone care about this geeky stuff? One good reason is that software is one of the world’s largest and fastest-growing industries. In 1999 the sector sold programs worth $157 billion, according to IDC, a market-research company; and software spending, which is increasing by 15% a year, influences investments of another $800 billion in hardware and services. The changes now under way are likely to reshuffle the industry completely. The next few years may make it clear which companies will end up on top.

Moreover, the software sector could well become a model for other industries. Open-source communities, for example, are fascinating social structures. Similar communities could one day produce more than just good code. Thomas Malone, professor of information systems at the Massachusetts Institute of Technology, sees great opportunities ahead: “The Linux community is a model for a new kind of business organisation that could form the basis for a new kind of economy.”

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Gathering steam

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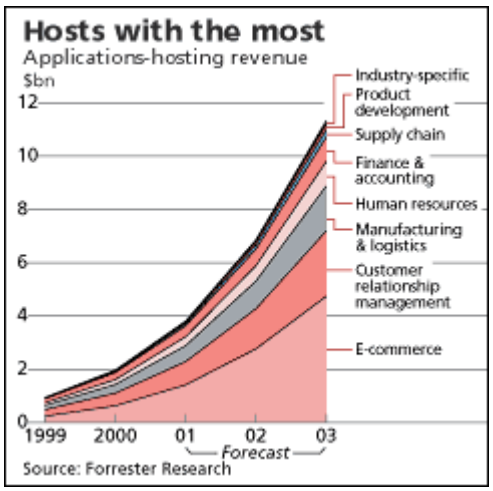
Software is migrating from users' computers to the Internet

EXODUS COMMUNICATIONS' two-storey building in Santa Clara, in the heart of Silicon Valley, looks like any old warehouse. But try to enter it, and you will spot several guards behind bullet-proof glass eyeing you with suspicion. They will not even open the door until you have placed your hand in a fingerprint scanner and flashed an electronic badge. The place is protected like a high-security prison.



Once inside, it is easy to see why. It is a huge data centre, full of thousands of servers (the superfast computers that dish up web pages and other data) stacked in metal racks and locked up in chain-link cages. A powerful air-conditioning system keeps the building from overheating. Several fibre-optic cables connect to the Internet. And back-up diesel generators are ready to jump in should the power fail (a real risk in California these days).

Data centres like this are physical proof that software is becoming a service that users can access via the Internet rather than a program they run on their computers. A year ago, "application services" and their providers, known as ASPs, were all the rage in the computer industry. Venture capitalists threw money at them. Most software firms made their programs "hostable" on servers.

That initial euphoria has died down somewhat, not least because some ASPs have gone belly-up. Even the market leader, USInternetworking, recently flirted with disaster. But the software industry is not having second thoughts about the concept. Rather, it is slowly figuring out how best to use the new technology—in much the same way that, nearly a century ago, companies had to learn that as electricity took the place of steam, they no longer needed to cluster their machinery around the power source.

The software industry has to resolve several tricky questions. The most fundamental one is which sort of software—meaning essentially the computing intelligence—should reside in a user's computer and which on a server. The next one is whether companies should host applications themselves or outsource them to a service provider. And lastly, what kind of ASP will carry the day?

Processing has always been a moving target. In the early days, when computing was expensive, most applications ran on mainframes and were accessed by "dumb" terminals. Later, Moore's law—which states that the power of computer chips doubles every 18 months—turned the PC into the location of choice for software. The Internet is pulling the intelligence out into the network. But how far?

Local or remote?

The answers offered by industry heavyweights depend on which side of the business they are on. Sun Microsystems, which makes its money from powerful servers, argues that most software will move into the network and be accessed through browsers. Microsoft counters that there will always be a need for an "intelligent client", by which it means a computer running Windows.

Both of them are right and wrong—it all depends. There are still good reasons to keep software on a local computer. Most users would rather have their word-processing or spreadsheet programs on their own PCs, where they are always accessible. Online applications can be sluggish, and Internet connections are often slow and unreliable.

The recent rise of peer-to-peer (P2P), a much-ballyhooed new technology, has moved the argument

slightly in Microsoft's favour. P2P services such as Napster, Gnutella and Aimster allow Internet users to swap music files and other data directly among themselves, but for that they need a powerful computer and a large hard disk—not just a "thin client" with a browser.

Yet the Internet is already changing PC software and making new kinds of offerings possible. For example, Eazel, a start-up, has put together an online service that monitors PCs running Linux, alerting users if there is a problem and performing automatic upgrades over the Internet. Another new service, ThinkFree, lets users work online as well as offline, downloading small office applications written in Java, a programming language, which then run in a web browser.

On the other hand, there are compelling reasons to put certain kinds of applications on a server. The strongest candidates are programs that are accessed not just by individuals or small groups of employees with a PC, but shared by many users with different devices, such as cellphones or hand-held computers. Equally, any software that needs to be updated frequently is best held on a central server.

Most new enterprise software, such as programs managing online marketplaces or customer relationships, fits these criteria. But even traditional Enterprise Resource Planning (ERP) packages stand a good chance of moving online. That is why PeopleSoft, an enterprise-software vendor, has completely rewritten the code for its human-resource and other applications for Internet use. PeopleSoft's chief executive, Craig Conway, explains that firms do not have to hire an ASP to access software on a server. But outsourcing a software service to a third party often makes sense for small and medium-sized companies that cannot afford a sophisticated IT infrastructure but want to use the most advanced products, says Mr Conway. "It's like being able to start your driving career with a brand-new Mercedes instead of a beat-up old car."

ASPs have not been a big hit with large firms so far, mostly because companies want to keep tight control of their applications and data. Still, some have been persuaded by the advantages of ASPs. Instead of having to waste time and money coming to grips with the latest technology, their customers can just hand over all the IT stuff to someone else and get on with their own business. To George Kadifa, chief executive of Corio, one of the leaders among the 500 or so ASPs that have sprung up in the United States alone, it is the worry-free implementation even more than the software itself that makes the services of companies like his so attractive.

Not everybody agrees. Bill Gurley, a general partner at Benchmark Capital, a venture-capital firm, says that companies like Corio are mere "service bureaus" that do not own much in the way of intellectual property. He also argues that most applications they host are not written specifically for the Internet, which in essence means they have to run a separate rack of servers for each customer—not a terribly efficient proposition.

That is why Mr Gurley has invested in a different kind of ASP: Employease, an Atlanta-based provider of human-resource services which has built its application entirely for the Internet. Unsurprisingly, the firm's service looks and feels much more like a big website, such as eBay, than traditional software. It runs on a single central computer system, so new customers can be easily added.

Being specially designed for the Internet is more than just a technical plus. It means that Employease is accessible not only to a company's human-resource experts (as most traditional HR applications would be) but to its employees too, as well as to third parties such as insurance companies or payroll services. "We are enabling collaboration beyond the four walls of the HR department," says Michael Seckler, Employease's co-founder and marketing chief.

When Mr Seckler and his colleagues launched their company in 1996, their offering seemed exotic, but now there are dozens of start-ups offering similar Internet-only services. NetLedger, for instance, runs a web-based accounting service. Salesforce.com can help you manage relationships with customers automatically. And ourproject.com makes it easy to manage projects online.

The awkward question

Yet these ASPs share a problem with all dotcoms: they have yet to prove that they can actually make money. Salesforce.com, for instance, claims to have 2,000 customers, mostly small and medium-sized firms, which pay a monthly fee of $50 per salesperson hooked up. This is not bad for a service that went live only a year ago, but the numbers will have to go up dramatically if Salesforce.com is to make a decent profit.

PeopleSoft's Mr Conway believes that most stand-alone ASPs lack a sustainable business model. "This is an overspawned market," he says. "A lot of fish will soon be flowing down the river." He sees applications services as another distribution channel for his company that will not need to earn its keep initially, but will over time become a large and profitable part of its business. Mr Seckler of Employease disagrees: "It's hard for incumbents to change from one model to another—you need to change the entire culture, educate the sales team and so on."

Whichever model proves the most successful, applications services are bound to have a huge impact on the software industry. But the technical challenges will pale in comparison with the new economic ones that software firms will have to adapt to. The way the sector used to operate was fundamentally inefficient. Although a service at heart (however automated), it conducted itself like a manufacturing business. It put its programs on floppy disks or CD-ROMs, marketed them heavily and left the rest to the users.

This created unhealthy incentives for software firms. Instead of developing software that works well and is easy to use, many of them concentrated on selling yet another upgrade with even more features. The capital markets reinforced this customer-unfriendly behaviour. The companies found that being first with a new product was often an unbeatable advantage, and that their valuations in financial markets depended on steep revenue growth.

When software becomes an online service, the interests of vendors and customers become better aligned because the providers have to behave more like a utility. "I only get paid if my service is running and my customers are happy," says Marc Benioff, chairman of Salesforce.com and a 13-year veteran of Oracle. Describing his years in traditional enterprise software, he recalls: "We didn't care if you were up and running, we only cared about the numbers."

Software firms must also get used to the fact that they will no longer receive the bulk of their licensing fees up front. Most ASPs charge a one-off installation fee, but much of their revenue comes from monthly subscriptions. Incumbents will find the transition hard to make, because it will bring down their growth rates for licensing revenue—and so far it has been these rates, according to a recent study by McKinsey, a consultancy, that have been the main determinant of software companies' valuations.

Among the big companies, Oracle is probably the furthest along the path from the offline to the online world. As early as 1998, the world's second-largest software firm put most of its programs online—not least because it hoped to cut support costs. If Oracle runs its programs itself, they are a lot easier to maintain, argues Tim Chou, president of Business OnLine, soon to be rebranded Oracle.com.

So far, the new unit makes up a small part of Oracle's business, contributing only a tiny share of its total revenue of $2.7 billion in the first quarter of this year. But if Larry Ellison, the firm's chief executive, is right in predicting that in three years about two-thirds of all applications will be delivered by ASPs, this part should grow quickly. "Whether we can make this transition is the $50 billion question," says Mr Chou. "In any case, if we don't try, we won't exist in the future."

But becoming an ASP is not the only big challenge the Internet has posed for incumbents such as Oracle. The other, just as formidable, one is the trend towards open-source software developed online.

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Out in the open

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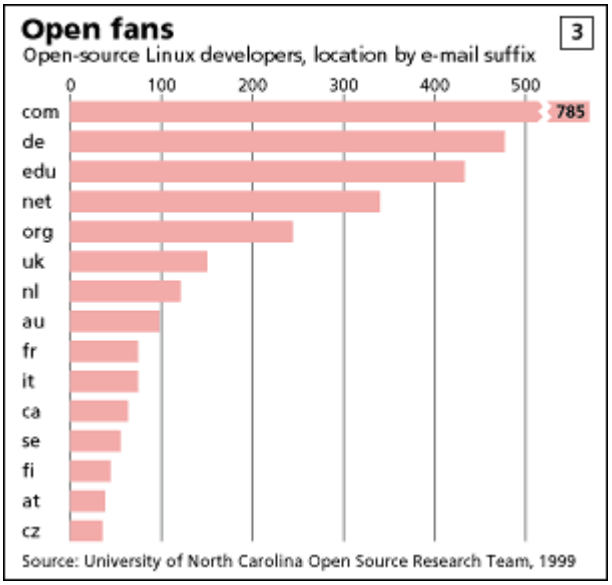
From The Economist print edition

The world is taking to open source

THE words must have shocked the global community of volunteer software developers known as the open-source movement. Volker Wiegand, president of the American subsidiary of SuSE, a leading Linux vendor, recently declared on the website Linuxgram that Linux as a business wasn't working out. His company had laid off two-thirds of its staff in early February. The free operating system was a "fallen angel" and a victim of irrational expectations, he said.



The statement, in essence, repeated what a Microsoft executive had argued a few days earlier. "There isn't much value in free," according to Doug Miller, group product manager for competitive strategies. He predicted that many Linux businesses would falter before the end of 2001, and that this, together with technical shortcomings, would "call into question whether Linux should be used at all" (instead of his own company's ubiquitous Windows, that is).

The Linux hype has undeniably crested. SuSE is not the only company that has had trouble building a viable business based on the free operating system. VA Linux, for example, a start-up which, in late 1999, enjoyed the most successful flotation ever—with shares gaining almost 700% on their first day of trading—recently said it would cut a quarter of its staff and take nine months longer than planned to achieve profitability. Only the market leader, Red Hat, is doing better than expected.

But this should not be read as a sign of the imminent demise of open-source software via Linux, its standard-bearer. Most people in the software industry believe that open-source is here to stay. Steve Ballmer, Microsoft's chief executive, recently called Linux "threat number one". Steven Milunovich, a leading analyst with Merrill Lynch, an investment bank, argues that open-source is a "disruptive technology" that could topple such industry heavyweights as Microsoft and Sun.

In fact, the open-source movement is less about "world domination", which hackers often joke about, and more about an industry which, thanks to the Internet, is learning that there is value in deep co-operation as well as in hard competition. "Much more than a cause, the open-source movement is an effect of the Internet," says Tim O'Reilly, head of an eponymous firm that publishes computer books, and a leading open-source thinker.

Open-source is often described as the software industry come full circle. Indeed, in the early days of computing, programs came bundled with the hardware and complete with the source code (the set of

computer instructions which are then translated into binary code, the form of software that computers can understand and act on). Pioneers needed to tweak their programs, and were happy to share the improvements they made.

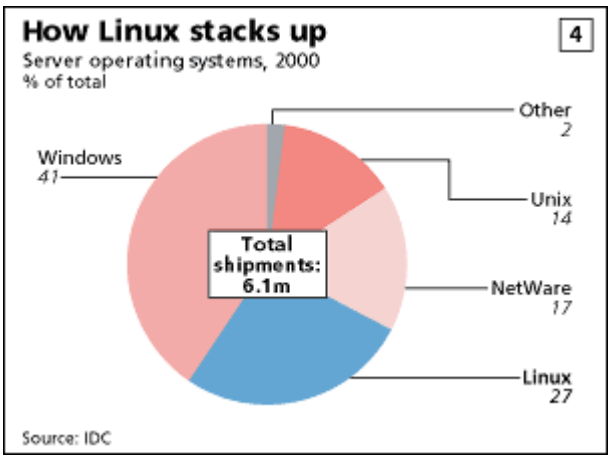
It was only in the 1970s, as computing spread, that firms such as Microsoft started to withhold the source code, thereby making software proprietary and turning it into a big business. Firms can sell a program without revealing the instructions that underlie it, just as Coca-Cola can market its soft drinks without giving away its secret recipe (though there have been plenty of attempts at reverse engineering, in software as well as soft drinks).

Many early hackers were horrified by the decision to withhold the source code. Proprietary software was "spiritually wasteful", they said, because it discouraged co-operation. One of them, Richard Stallman, founded the Free Software Foundation in 1983 and developed the concept of "copyleft" (as opposed to copyright), which he codified in a licence that now comes with most open-source software. It states that developers can do whatever they want with the programs, even sell their own versions, as long as they make the source code available.

Although this licence, called the General Public License (GPL), has never been enforced, it has done much to keep open-source software from splintering into competing commercial versions, open-source advocates say. The GPL, in effect, removes the incentive to turn a program into a proprietary product, they argue, because the licence is "viral": all changes to the source code automatically become part of the software commons. That is why James Allchin, who is in charge of operating systems at Microsoft, recently called the licence an "intellectual-property destroyer".

But open-source projects are best understood as a new generation of standards bodies, much like the Internet Engineering Task Force (IETF). The traditional methods for setting technical standards have turned out to be rather inefficient. Governments and industry committees are slow and often get it wrong. Monopolies are faster and do a better job, but they tend to put the brake on innovation in order to keep their dominant position.

The Internet has opened up a third way. It allows engineers in different corners of the world to collaborate at almost zero cost. Since communication is so easy, there is no need for official leaders or a big bureaucracy to keep things running. And the decision-making process is more transparent: discussions and documents, for instance, are easy to get at and to search. What counts is the quality of the argument, not the power of special interests.



The Internet pioneers were the first to create online communities for their work. They modelled their groups on organisations they had grown up in: universities and engineer corps. That is the main reason why the IETF turned out to be an interesting cross between a scientific community and a guild. It is run by elders, and its main mantra is: "We reject kings, presidents and voting. We believe in rough consensus and running code."

For love, not money

Most open-source projects are organised in much the same way. Their members are motivated mainly by fame rather than fortune; it is considered a coup to write a "patch" that passes the peer review of fellow

developers and gets incorporated in the next release. And most open-source projects are governed by a “benevolent dictator”, an individual with exceptional programming, organisational and communications skills—such as Linus Torvalds, the creator of Linux.

The power of these leaders, however, is not absolute. If developers are unhappy with them, they can always “fork”—take the source code and start a new development branch. To Brian Behlendorf, one of the leading developers of the Apache web server, another successful open-source project, and now chief technology officer at CollabNet, this keeps the benevolent dictators from becoming real ones.

Yet cheap communications alone are not usually enough to get open-source communities off the ground, nor to make them as successful as Apache or Linux. They need a starting point and a framework. For Apache, these were provided by a program developed by the National Centre for Supercomputing Applications (NCSA) and by the open standards of the Internet. Linux had the original, very simple version written by Mr Torvalds as a starting point and Unix, a programme created in the 1970s, as a blueprint.

To be successful, open-source software must also be designed in a modular way so that groups of programmers can work independently on different components. Most of the work on Linux, for example, is done not by a large horde of hackers all working on the same code, but by small groups of a dozen or so developers each of which concentrates on one small part of the program.

Lastly, an open-source alternative needs a market. Linux had a ready-made one: hardware makers wanted a free alternative to Windows so as to increase their margins and gain some independence from Microsoft. The recent antitrust case against the software giant gave them a chance to support another operating system without fear of immediate retaliation. From Compaq to Dell, from Hewlett-Packard to IBM, they have all jumped on the Linux bandwagon, offering computers with the program pre-installed and investing in Linux companies.

Ironically, it is IBM, the hackers’ original arch-enemy, that has gambled the most on Linux so far. Big Blue recently announced that it will spend $1 billion on Linux this year because it really wants the program to become a computing standard. It is doing this because it sees itself mainly as a provider of e-business solutions, and because a standard operating system would make it much easier to integrate them, explains Irving Wladawsky-Berger, IBM’s man in charge of its Linux operations.

Hence IBM’s efforts to make all its important programs run on Linux and transfer the operating system itself to all kinds of computers, from tiny hand-held ones to mainframes. Using special “partitioning” software, these workhorses of computing can be turned into a virtual collection of thousands of Linux servers. IBM is also trying to help the Linux community beef up the program for heavy-duty corporate computing, where it is still a rarity.

A lot of ifs

Some people like to dismiss Linux as nothing more than a happy accident, but the program looks more like a textbook example of an emerging pattern. If a piece of software is well understood, to the point of becoming a commodity; if it can be built in a modular way; if there is a critical mass of users who are also software developers; if there are talented project managers among them; and if there is a demand for a program that is not controlled by a single vendor—then the chances are it will be suitable for an open-source project.

Admittedly, that is a lot of ifs. But Linux is by no means the only successful open-source project. Take Sendmail, which is used to route two-thirds of the world’s e-mail and has spawned a start-up of the same name. It makes a living by selling a commercial product, but it also helps others to develop a free version of the program. The community of developers creates a basic product platform that Sendmail can polish and enhance to make money.

And there are many smaller, less well-known open-source projects that could gain momentum. In October, Sun Microsystems launched OpenOffice, a free alternative to Microsoft’s Office suite. Forrester Research, a high-tech consultancy, forecasts that by 2004 companies will be spending 20% less on software licences than they do now because they will be using these kinds of open-source programs.

However, there are two areas of the software industry that open-source will have trouble penetrating. One is enterprise software that relates to a company’s core activities. Companies will hesitate to bet their

business on free software, at least until it is backed by heavyweights such as IBM, as Linux is now. The operating system will be the test case of whether open-source software can move into heavy-duty corporate computing. Linux's most recent release is a big improvement, but it still has some way to go.

The other difficult territory is truly innovative programs. This kind of software seems to be better designed and built by a tightly knit group of developers within a single company. Open-source is extremely good at optimising existing programs, says Ray Ozzie, chief executive of Groove Networks and creator of the popular Lotus Notes. But he cannot imagine his firm's software, which allows small groups of people to collaborate online, being developed in a decentralised way. He and four colleagues operated "like one brain" for three years to solve all the engineering problems, he says.

Still, nobody can predict what kind of "mob software" may turn up. Richard Gabriel, a distinguished engineer at Sun, describes this as "a kind of semi-chaotic, self-organising behaviour in which numerous small acts of repair can lead to quickly built, complex and massive creations". Open-source is certainly a mass phenomenon, with tens of thousands of volunteer programmers across the world already taking part, and more joining in all the time, particularly in countries such as China and India. SourceForge, a website for developers, now hosts more than 18,000 open-source projects that keep 145,000 programmers busy.

Meanwhile, the corporate world is warming up to open-source in unexpected ways. Firms are showing increasing interest in using this development methodology for software they create in-house or with a limited number of partners. For example, Dresdner Kleinwort Wasserstein, an investment bank, in January released the source code of an application it developed to link different types of computer systems, and has hired CollabNet to build a developer community around it.

Even Microsoft is learning to love open source. The firm recently announced that it will share the source code of the latest versions of Windows with 1,000 of its best customers—but only on condition that they do not modify the program.

The official software industry, for its part, is already busy building the infrastructure for the next wave of computing: web services.

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Battle of the platforms

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From The Economist print edition

Who will bag the market for web services?

NOBODY would call ADP a cutting-edge software firm. The 50-year-old company, based in Roseland (New Jersey), is best known for sending pay cheques to over 29m employees worldwide. Its corporate customers transmit the relevant information to ADP electronically and the firm's computers take care of the rest. For many companies, dealing with their payroll in-house and keeping track of ever-changing labour and tax regulations would be a waste of resources.

Yet ADP is a pioneer of a phenomenon the entire industry has begun talking about: web services. These web services move one step on from web applications (which are about browsers accessing online software): they are about machines talking to each other over the Internet, or more precisely, about machines talking to machines talking to yet more machines, and so on—creating a grid or cloud of electronic offerings that feed into each other.

In this new world, a payroll service, for instance, would be a combination of several other web services. A company would outsource its human-resources system to one provider, while another would keep track of the hours employees work. The payroll firm would also be hooked up to a service that delivers information about regulatory changes and, if the money has to be transferred abroad, with a bank offering foreign-exchange services.

The network thus becomes one huge distributed computer, just as Sun Microsystems, the leading maker of network servers, has been predicting for decades. And just like a mainframe or a PC, this mother of all machines needs an operating system, a platform on which all these services can be developed. It is hardly surprising, then, that the computer industry is already gearing up for another religious war over which platform will come out on top.

Ranged on one side is Microsoft with its .NET plan. Jostling on the other are the rest of the industry heavyweights, all touting open standards, but each promoting its own, slightly different version. Hewlett-Packard and Sun recently announced initiatives called NetAction and Open Net Environment (ONE) respectively. Oracle's effort goes by the name of Dynamic Services, while IBM is touring its WebSphere platform.

And then there is a raft of fast-growing newcomers, as yet known only to insiders, that are also hoping to get a big piece of the pie. BEA Systems, a Silicon Valley firm founded in 1995, is the most ambitious, with its plan to do for web services and e-commerce "what Microsoft has done for the PC", as chief executive Bill Coleman grandly puts it.

The age of web services actually began several years ago, but only experts noticed because it happened deep down in companies' IT plumbing. Since the late 1980s, business computing has been dominated by a model called client/server, in which most processing is done on the desktop "client" (intelligent terminal) and some on the server. Peter Lewis, a noted American technology journalist, once compared this system to a restaurant where the waiter takes your order for a hamburger, goes to the kitchen and comes back with some raw meat and a bun. You get to cook the burger at your table and add your favourite condiments.

This has advantages: the service is faster and the food is cooked exactly to your liking. But there are also serious drawbacks. The restaurant has to maintain a stove at each table; every time a client application is updated, new copies have to be installed on every computer. And a lot of raw ingredients have to be carried from the kitchen to the table; large amounts of unprocessed data have to be moved from the server to the client.

What is more, the model works well only in a small restaurant and with a simple menu. Once you have lots of customers, demanding anything from sushi to steak, you will need to train your waiters in logistics. To put it in computerese, if you have many different clients—PCs, hand-held computers,

cellphones—accessing many different applications running on different operating systems, you need a set of specialised programs to manage the traffic.

Cook-your-own or ready-to-eat?

Since its rise in the mid-1990s, the Internet has created such diversity and thus provided the breeding ground for a whole new class of software to tie everything together: middleware. Its central program—some already call it the operating system of the new world of software—is something called the web-application server. To stick with the metaphor, it now takes care of all the cooking. In essence, it is a big container of pre-cooked ingredients that developers can easily assemble to create new meals (ie, web applications) which are then delivered to a table (a browser).

Although web-application servers are relatively new, they are already quite a juicy market. Last year they generated revenues of $1.6 billion, according to Giga Information Group, a consultancy. The firm expects the figure to grow to $9 billion by 2003. The leading vendor so far has been BEA, but the established companies, which had neglected the market, are catching up fast. IBM's WebSphere, says Giga, is now in a dead heat with BEA's WebLogic; both have a market share of 24%.

What turns simple web applications into more malleable web services is something called Extensible Markup Language (XML; see article). This new language provides the necessary standard interfaces for different web services to seek and find each other, communicate what they do, describe the data they want to exchange, and then act on it. XML has thus become the lingua franca of the web-services cloud.

But the picture would not be complete without Java. Sun, the creator of this programming language, originally touted it as a technology that would break Microsoft's lock on the PC desktop. Small programs, called applets, written in Java were meant to be distributed via the Internet and downloaded to run on any computer, regardless of its operating system.

Yet the "write once, run anywhere" claim for Java was quickly amended by cynical developers to "write once, debug everywhere". The technology was not mature, and Microsoft, to boot, had written a dialect of Java that worked well only on Windows. Yet, as with many new technologies, Java turned out to be more successful in unexpected places. Many developers started using the language to write applications for the larger systems of corporations.

More important, Java has also become what geeks call an "application-development environment". This means that Java (or, more correctly, its extension called Java 2 Platform, Enterprise Edition, or J2EE) now provides programmers with the necessary infrastructure to create new applications—just as Windows is not only an operating system, but also a platform on which to build other programs. Most web applications today, particularly corporate ones, are written in Java and run on a J2EE-compliant server program such as WebLogic or WebSphere. What companies like about this is that it allows them to develop highly customised applications quickly without having to start from scratch.

It was mainly this trend towards computing centred on networks that prodded Microsoft into launching its ambitious .NET plan last June. This is an effort to establish an alternative web-services platform, albeit one with a uniquely Microsoft flavour, since the company cannot afford either to abandon its cash cow, Windows, or to let go of its proprietary past. Although the firm's managers insist that .NET is based on open XML standards, it is nonetheless tied to Windows and leaves Microsoft essentially in control.

So far, however, much of .NET exists only on colourful slide presentations to impress Wall Street and, more importantly, to lure software developers back from the Java world and keep others from jumping in. Microsoft's most precious off-balance-sheet asset has always been the huge number of programmers creating applications for Windows, thus making the platform more valuable. That is why in the past the company has always put a lot of effort into making life easy for them.

It is also why most .NET announcements so far have been aimed at making the platform attractive to developers. Microsoft has just unveiled a set of "building blocks" code-named HailStorm that include key services, such as keeping track of a user's location or storing his personal information, that developers can use to build their own services. And this summer, Microsoft will release a set of top-notch developer tools called Visual Studio.NET.

Microsoft's recent decision to settle its four-year-old lawsuit with Sun over Java must also be seen in this light. Sun had sued Microsoft, claiming that the software giant violated a licensing agreement by creating

a version of Java that would work well only on Windows. The settlement now draws a clear line between the competing camps, forcing developers to take sides. Microsoft will, in essence, abandon Java and is encouraging programmers to switch to its own Java-like language, C# (pronounced C-sharp).

It is much too early to tell which camp will win the day. The game is certainly the Java crowd's to lose. Their platform is pretty much in place, and unlike Microsoft they do not have to drag large numbers of established developers, consultants and users from the old world of PC software into the new universe of web services.

Yet Microsoft has successfully played catch-up before, even if its methods have sometimes been questionable. And it has every incentive to make .NET a success: if it fails, it risks losing its dominant position in the computer industry, just as IBM did in the 1980s. The firm has already cranked up its formidable marketing machine. Hardly a week passes without another .NET event or deal.

Microsoft might even get some help from its competitors. They too have yet to prove that they are serious about "co-operating on the standards and competing on the implementation", as Sun puts it. The history of the operating system Unix, which fragmented into incompatible versions because Microsoft's rivals could not agree on standards, is a cautionary tale. If they start bickering again, customers might opt for .NET after all. At least they can be sure that it will be fully integrated, because that is where Microsoft excels.

It is unlikely, though, that any one company will dominate web services in the way that Microsoft has ruled the world of the PC—at least as long as firms stick more or less to open standards. And more than ever, there will be opportunities for integrators of all sorts, as the article will show.

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The X-files

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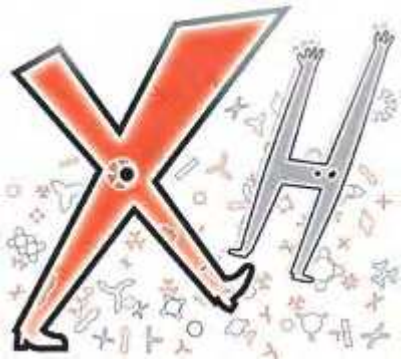

WHEN the Extensible Markup Language, or XML, first appeared on the scene in 1996 as a standard pushed by the World Wide Web Consortium (W3C), most experts thought of it simply as a more sophisticated form of the Hypertext Markup Language (HTML) in which most web pages are written today. Instead of just telling the computer how to display data, as HTML does, a document written in XML also contains information about what the data represent—say, a date or a stock price.

More important, XML can be—as its name implies—extended. Unlike HTML, which has a limited set of tags to mark up a document, XML developers can invent their own tags, as long as they explain, in a standard way, what they have done and attach this information to the document.

So far, most of the work on XML has concentrated on how to use the technology to exchange data between firms—as Electronic Data Interchange (EDI) already does, albeit clumsily. There are now dozens of groups in various industries developing XML dialects for particular sectors. The best-known are RosettaNet for electronics and Acord for insurance. But there are less weighty ones too, such as ChessML and MindreadingML, using tags such as <thoughtsuck> and <deepfears>.

Last year, the growing community of XML developers shifted its attention to another issue: how exactly to transfer XML files between parties. As it turned out, it is not enough to know what the data represent. A supplier also has to know, for instance, that a price change has been received by its retailers and whether they intend to place orders. There are now more than a dozen transport protocols vying to become the standard for this. SOAP (Simple Object Access Protocol) has so far attracted the most backers. But there are more ambitious efforts too, such as ebXML (electronic business XML), sponsored, among others, by the United Nations.

More recently, the software industry has begun working on how to find web services in the cloud. Last September, Ariba, IBM and Microsoft proposed a standard called Universal Description, Discovery, and Integration (UDDI). The effort, since joined by Hewlett-Packard, Intel and Oracle, aims at building a giant worldwide directory for web services. UDDI goes hand in hand with the Web Services Description Language (WSDL), used to describe the function of a web service and its provider.

The alphabet soup can only get thicker. The industry is already working on something called Transaction Authority Markup Language (XAML), which will undo a transaction involving multiple web services if one of them fails. It comes as no surprise that leading software companies are already talking about creating a standards body for XML to avoid linguistic confusion—among computers, that is. Users may have to learn yet another X-word: XMLC for XML Consortium.

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All together now

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The complex business of software integration

AN ARMS merchant who sells weapons to all combatants? When he was still chief technology officer of Netscape, the little David fighting Microsoft's Goliath, Marc Andreessen would have dismissed the idea. But in his new job as chief executive of Loudcloud, he is quite comfortable with it.

Mr Andreessen is in the business of integration, meaning that his firm assembles all the pieces needed to build a web application—the hosting facility, the equipment, the software, the network connections—and makes sure that everything is secure and runs well. With his new hat on, he does not care which technology his customers use. He has even been into the lion's den, virtually at least. At the launch of Microsoft's .NET last June, Bill Gates, the company's boss, showed a short video featuring Mr Andreessen saying nice things about Microsoft's ambitious plan.

The idea behind Loudcloud is that companies will want to outsource the building of the infrastructure for a web application because the task is hellishly complex. In due course, Mr Andreessen's firm intends to automate that difficult process completely with a piece of software called "Opsware". More than 40 customers have already signed up, including Eazel, News Corp and Nike.

Build me a cloud

Mr Andreessen is not the only one who believes that integration will be big business in the world of web services. Call them the builders of the cloud: there are dozens of firms vying to put back together all the pieces that the Internet has helped break apart—to create the web applications, web services, business processes and even entire companies.

Open standards help to make that possible, but by themselves they are not enough. They do not kill the beast of complexity that lives in every software system. And there will always be some differences in the way software firms implement standards.

In the past, much of the integration of software systems was done in-house or by hired consultants, but increasingly software packages have taken over a big part of that function. Programs by SAP of Germany, the leading vendor of enterprise resource planning (ERP) programs, have been so successful not just because they are good products, but because they come as an integrated package. And much of Microsoft's dominance is due to its skill at integrating different pieces of software.

Making everything work well together is also the sales pitch of the established software firms for their web-service platform. "Seamless e-business demands seamless software," trumpet the advertisements for Oracle. Sun is singing a similar tune. "People are sick of buying this stuff from different vendors," said Ed Zander, Sun's president and chief operating officer, at the launch of the firm's web-services initiative.

That may be true for medium-sized firms, but large companies are more open to cutting-edge ("best of breed") software to stay ahead of their rivals. More important, no one company can be the source of all innovation, explains George Gilbert, chief software strategist at Credit Suisse First Boston, an investment bank.

So there will be plenty of work for Loudcloud and dozens of other "managed service providers" (MSPs). But MSPs are not the only fish in the integration pond. Higher up in the stack of software, other new firms are also offering services to put everything together. Asera, a much-watched start-up, has probably the most innovative approach. Its software integrates the best e-business programs from different vendors and offers them as an application service. Customers rent only the bits they need. They are thus becoming insulated from the technology. Software is turning into a utility.

Jamcracker, another start-up, also offers to simplify its customers' lives. It integrates the offerings from

different application service providers (ASPs) such as book-keeping or recruiting, so customers do not have to manage a relationship with each of these ASPs separately. Customers sign on only once, and get around-the-clock technical support.

Portera takes the integration theme even further by offering a bundle of services for consulting firms. The start-up aims to manage the entire business process of its clients, says Gary Steele, its chief executive. Through the firm's web portal, called ServicePort, consultants can automate much of what they do—scheduling meetings, organising training sessions, creating project teams—and keep track of it while they are on the road.

The holy grail of integration, however, will be to weave web services together. This will be hard to do but should make lots of money. "It's the air-and-water franchise," says Bob Crowley, chief executive of Bowstreet, one of the pioneers in the market. Just as with the platform for web services, incumbents and start-ups are already jockeying for position. Large software companies offer integration as part of their package of web services. Hewlett-Packard has even designed its integration framework as neutral territory to suit different kinds of software, bridging the competing worlds of .NET and Java.

So far the more specialised integrators seem to have the edge. Vitria, for example, is one of the leaders in Enterprise Application Integration (EAI), linking disparate computer systems within a company. WebMethods has pioneered the use of XML for business-to-business integration (B2Bi), a way to interconnect, for instance, the order and inventory management systems of different firms.

But both firms' ambitions go far beyond acting as IT plumbers. WebMethods' chief executive, Phillip Merrick, says he wants to develop his products into a "complete platform for business process automation". Software allows companies not only to connect applications easily and link up with others, but also to program the way they run themselves and deal with their partners.

Bowstreet, for its part, wants to play the part of the big web-service unifier that sits on top of everything. It has developed software similar to Vitria's, called "Business Web Factory", that lets firms mix and match all kinds of web services. The Thread.com, for example, is using Bowstreet's technology to let clothing firms create their private supply chains at the click of a mouse—buying fabric in Thailand, booking manufacturing capacity in Bangladesh and arranging for distribution in America.

Not all the integrationists' hopes will come true, and it will take years to tame the beast of complexity. The main obstacle for web services, however, may well be the way the digital software interacts with real-life people (known as wetware).

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Design Darwinism

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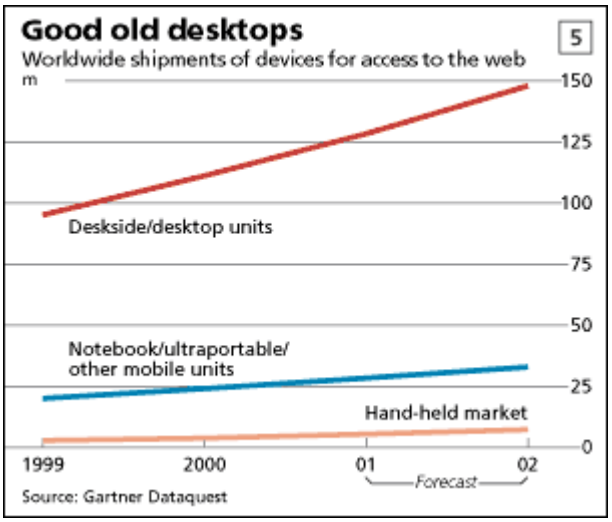
Making computers fit for people to use

WHO killed all those dotcoms? Most experts accuse greedy venture capitalists, inexperienced managers or impatient shareholders. But Jakob Nielsen, one of the leading experts on user-friendly web design, has identified another culprit: offputting websites. Many of them were just too difficult to use. “Firms drew users to their sites with expensive promotions,” he explains, “and then lost them with ineffective design and bad service.” If websites and computer programs were easier to use, he argues, it would not just narrow the digital divide, but also save knowledge workers about half of the hours they now spend in front of the screen.

Mr Nielsen and his colleagues of the Nielsen Norman Group are on to something. If use of the web is to become ubiquitous, “user interfaces” (geek-speak for the point where computers and people meet) have to get a whole lot better. The slow adoption of the wireless Internet in Europe and America so far should be seen as a bright red warning light. Users are sick of clicking through dozens of menus on their mobile-phone displays to find what they want (if they are lucky).



Complaints about user interfaces are as old as the concept itself. The PC’s so-called WIMP (windows, icons, menus, pointer) interface was invented in the early 1970s at Xerox Parc, a famous Silicon Valley research lab. But not much has changed since Apple came up with its Macintosh computers in 1984 and Microsoft copied it with Windows a few years later—except for the addition of a lot more bells and whistles.

It is not that nobody has tried to do anything new. Start-ups regularly come up with interesting new ways to organise computer files, for example. The Brain lets you link documents, web pages and other data and displays them as a network, similar to the way people associate things in their minds. Mirror World Technologies, a company inspired by David Gelernter, a computer-science professor at Yale University, offers a program that organises files chronologically, as a stack of index cards to search and browse. It recently relaunched the product as a network-based application called Scopeware.

But none of this has really caught on, in large part because users are rather conservative, as Steven Johnson, editor of *Feed*, an online magazine, points out in his book “Interface Culture” (Harpers San Francisco, 1997): “If there is a gravitational force operating within this field, it is the force of habit.”

The economics of PC software have not worked in users’ favour. For a start, more than 80% of PC users are locked into Windows. Software vendors wanted their products to appeal to as many users as possible and sell them frequent upgrades, so they added ever more features, making programs more difficult to use.

The Internet is improving this warped ecosystem. To begin with, the network cuts costs, which allows software firms to pay more attention to things like ease of use. Many programs these days are downloaded from the web, so companies spend less on marketing and distribution. Technical support has become cheaper, too, because much information can be put on the web.

The Internet also increases competition, at least for PC software. Most downloaded programs are now available in a trial version that expires after 30-60 days, giving customers a chance to see how they like them. And with pure web applications, users will get even more of a choice. Since the Internet is built on open standards, they can use almost any web application, not just those written for their particular operating system.

Because the competitors are often only one click away, the interfaces of commercial websites have already improved much faster than those of standard desktop software. Yet many e-tailers, even the more popular ones, still do not get the basics right. Creative Good, a design consultancy, carried out a test in which 50 consumers each visited the sites of eight leading e-tailers. Almost half of all attempts to make a purchase failed because the users could not work out how to complete the transaction.

Net deficit

The reasons for such failures are complex. Some designers bet too much on technology and forget simplicity. Asking consumers what they want is not necessarily the answer: many of them don't know. Only expensive and time-consuming direct observation, says Mr Nielsen, will tell you where they encounter problems with a site.

That is where a number of firms see their opportunity. Vividence, for example, has put together a panel of 150,000 surfers who are willing to review client websites. Launched in early 2000, the company already has more than 160 clients. In the long run, it wants to improve the interfaces of all kinds of electronic devices. That seems a good business to be in. According to Bruce Tognazzini, another principal of the Nielsen Norman Group, the shift from a 17-inch monitor to a cellphone's one-inch display threatens to wreak havoc with user-friendly software design. PC monitors are relatively forgiving, but with small displays designers have to anticipate what users may want to do. The Palm hand-held computer eventually succeeded because its creators talked to a lot of potential users and discovered that they wanted things like simple one-button access to basic features such as address books.

Such problems help to explain why the wireless Internet so far has not been a big hit in Europe or in America, except for sending short messages. The browsers in cellphones, based on the wireless application protocol (WAP), are a poor imitation of web browsers. Using a WAP service at present is like going through an entire deck of cards to find the right one. The next generation of WAP browsers, which will appear in cellphones later this year, will be a huge improvement.

Voice input will also make it easier to bypass the display limitations of wireless devices. BeVocal, a start-up operating what is known as a voice portal, already offers a combined voice and text service. Users can ask for directions and the system will talk them through to their destination or send them an e-mail. Future generations of wireless technology will allow switching between voice and text.

Yet this is still the wrong approach, argues Rich Rifredi, marketing chief at Pixo, a Silicon Valley start-up selling software to customise the user interfaces of handsets and other wireless devices. Depending on the target group for a product, they can, and should, look very different, he says. A business traveller might want one-button access to share prices; a teenager to her list of friends. "If the PC was about adding features", explains Mr Rifredi, "hand-helds and cellphones are about what to cut."

One of the products Pixo helped to build was Scout Electromedia's Modo, which enjoyed only a brief flowering before investors pulled the plug on the company last autumn. It was a kind of wireless entertainment magazine, updated daily, where users would find local information on, for example, the nearest Japanese restaurant or cashpoint. The Modo provided a foretaste of the use of location as a way to select content. Hardware makers are already working on other ways to configure a device. Hewlett-Packard, for example, is experimenting with different kinds of sensors. If a device senses that it is being driven around, it could automatically call up a traffic-information service. Smell could be used to authenticate a user.

Integration of form and function will become more important, predicts Tim Brown, chief executive of Ideo, a leading design firm that developed such classics as the first mouse for the Macintosh. Once

electronic devices become more pervasive, he says, the idea of a generic interface becomes obsolete. For example, elderly people are frequently overwhelmed by Windows. That is why the Health Buddy, a device developed by Ideo to monitor a person's health on a continuous basis, has a very simple interface and large buttons.

No doubt the industry will come up with many more smart, easy-to-use devices. But first it must solve another problem: how to ensure a better fit between software and the organisations that use it.

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A touch of concrete

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Even the best software won't work without organisational changes

WHEN Charlie Feld gets called in, it is almost too late. His corporate client is nearly collapsing beneath layers upon layers of information technology—different generations of hardware, uncounted pieces of software. And somehow none of it really connects. Most departments have incompatible systems. They keep their own databases and guard them jealously.

Bringing order to such chaos is the speciality of Mr Feld, chief executive of the Feld Group, and known as the Red Adair of IT. When he parachutes in, he becomes the acting chief information officer of a company for two or three years and, with a few colleagues, turns the disparate islands of computing into a coherent system. He has already sorted out the IT woes of large firms such as Delta Air Lines, Burlington Northern and Santa Fe Railway Company and Westinghouse. But fixing technology is the smaller part of what Mr Feld does. His main task is to create the right organisation for the new IT system. Unless you do that, he says, "the inertia of an organisation makes you end up with just another ugly IT animal."

This may seem pretty obvious, but when companies bring in new IT systems few of them pay much attention to the effect on their organisational structure and culture. "There is still the belief that big enough software will solve all the problems," says Rebecca Henderson, management professor at the Massachusetts Institute of Technology (MIT).

As long as software mainly replaced labour and did the boring stuff faster, such negligence might not have been too serious. But as IT penetrates every corner of an enterprise, with the Internet connecting everything, the oversight becomes potentially disastrous. It is the main reason why something goes wrong with three-quarters of software projects, according to the Standish Group, a consultancy.

That the human side of computing matters, particularly when it comes to networks, is not a new discovery. A decade ago, Wanda Orlikowski, a professor of information technologies and organisation studies at MIT, published a study on the deployment of Lotus Notes, a program known as groupware, in an international consulting firm. Her main finding: "When an organisation deploys a new technology with an intent to make substantial changes in business processes, people's technological frames and the organisation's work practices will likely require substantial change." Groupware allows employees to collaborate online, thus supposedly making an organisation more efficient. But Mrs Orlikowski found that the program was used mostly to send e-mail, transfer files or call up online news sources.

Because the program's introduction was rushed, the firm's technology group did not have the time to train people properly. More important, the organisation's reward systems and culture were at odds with the collaboration that groupware is supposed to achieve. As with many other consulting firms, the culture was competitive and individualistic. And management expected most hours to be "billable" (ie, chargeable to clients), which time spent trying out and using Notes was not.

Poor use of groupware is wasteful, but a botched implementation of enterprise resource planning (ERP) software—which handles a company's financial, manufacturing and human resources, among other things—can be downright dangerous for a company. Yet very few firms have seriously tried to figure out how these all-encompassing packages of corporate software fit into their organisation, says Thomas Davenport, director of the Institute for Strategic Change at Accenture, a consultancy formerly known as Andersen Consulting.

Do it our way

That is one of the main reasons, Mr Davenport explains, why of the 100 firms he studied for his book "Mission Critical" (Harvard Business School Press, 2000), only ten got any real value from implementing an ERP system. Most companies simply did not see the connection between information technology and organisational structure. They did not realise, for example, that once such enterprise software was in

widespread use, business would have to be conducted in much the same way worldwide.

To “pour some ERP concrete into a business” (as IT managers jokingly put it) was a particular problem for American firms, which tend to give their constituent business units considerable freedom in the way they conduct their activities and how they embody this in information technology. “To switch to a centrally defined and controlled enterprise software in which everything must be common is a bracing change,” Mr Davenport writes.

Often, however, the problem is simply an astonishing lack of foresight, in spite of all the business re-engineering that ERP systems have brought about. Mr Davenport quotes the example of a company that had introduced a sophisticated purchasing system—but forgotten to train the employees in the purchasing department. They had to learn how to use the system after the event, which seriously delayed the project.

And yet the benefits of “organisational investments” are significant, according to Erik Brynjolfsson, a management professor at the MIT Sloan School of Management. Along with two other researchers, he analysed the IT investments of 400 large firms and found that those companies that had adopted organisational changes along with the new technology tended to be more productive.

If McKinsey has its numbers right, both software vendors and their customers could be saving themselves a lot of money by paying more attention to the organisational aspects of introducing new software. In a recent study of a clothing retailer’s investment in supply-chain software, the consultancy’s software practice found that the program yielded savings of $15m a year, but that another $55m of potential savings remained unrealised because they would have required changes in organisational structure, business processes and incentives. “Many providers don’t even know how best to exploit what their software could do for companies,” says Greg Hughes of McKinsey’s software practice.

It is not only excessive faith in technology that keeps many firms from making these low-tech investments. For Mr Feld, another reason is that IT has traditionally been less well managed than other parts of a company because management considered it an expense. Mr Davenport thinks that firms were simply not willing to shell out the extra money needed to make the organisational as well as the technological changes. They also lack people who have both technical and organisational knowledge.

Now at last some vendors are starting to develop the necessary skills. I2, a leader in programs for supply-chain management based in Dallas, Texas, does not think of itself as an enterprise software company, but as a firm that “creates business value”, says the company’s chief executive, Sanjiv Sidhu. I2 does not just sell software, but also helps customers to transform their organisations. The firm is so confident of the benefits it offers its customers that sometimes it links part of its licensing fee to cost savings.

Web services are bound to bring further organisational challenges. For a start, they will make the technical side of mergers and acquisitions easier. At present, many such get-togethers are frustrated because the IT systems of the intended partners cannot connect. More important, the technology will allow firms to outsource even more functions than at present and specialise in what they do best—and then, in many cases, offer that speciality as a web service. An insurance company, for example, could hone its underwriting expertise and deliver this as a web service, while buying in credit-rating, human-resource or news services from other providers.

How far will this digital division of labour go? Thomas Berquist, managing director of global investment research at Goldman Sachs, an investment bank, predicts the emergence of what he calls “industry operating systems” (I-OPS)—huge IT hubs that will take over many of the functions common to the firms in a particular sector. In future, he expects firms to outsource much of what constitutes a company today.

Mr Berquist calls these entities “operating systems” because they provide common functions for companies, much as their computer equivalents provide common functions for software applications. And in analogy to the PC world, he expects that each industry embracing an I-OPS will ultimately settle on a single big winner. But there might also be other consequences of a web-service world that require vigilance, as the conclusion of this survey will show.

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As goes software...

Apr 12th 2001
From The Economist print edition

...so goes business—and, perhaps, even society itself

LET software disappear, and life as we know it would break down, at least in developed countries. It controls most of the objects which surround us: computers, of course, but also telephones, cars, toys, TVs, much of our transport system, and so on. Yet if the vision of web services comes to pass, today's dependence on software will appear slight. Life in the cloud will mean that much of what we do, as *homo oeconomicus* at least, will be automated, from restaurant reservations to car purchases, from share trades to entire business deals.

All this is at least some years off, and may not happen at all. But the prospect raises some interesting questions. Who will write all the code needed for these services? What needs to be done to ensure that it is reliable and secure? And, last but not least, is there a way to prevent a few dominant companies or governments from controlling the cloud? Conveniently, the Internet and the institutions it has spawned may hold some answers.

Laments about a "software crisis" are almost as old as the industry itself. There are never enough skilled programmers to satisfy the demand for high-quality code. But in the years ahead this chronic imbalance could turn into a veritable "software gap", as an American presidential advisory group made up of leading computer scientists put it in a 1999 report. "This situation", the researchers wrote, "threatens to inhibit the progress of the current boom in information technology."

The group is even more concerned about the current fragility of software. Even much-tested commercial varieties are often riddled with bugs, lack security, do not perform well and are difficult to upgrade. This was a bore when most software was confined to isolated devices and networks, but it becomes a serious problem in the world of web services. Software delivered online has to be able to withstand the onslaught of millions of users, and is at risk of security attacks from myriad sources.

Whereas these technical issues have been discussed for some time, the social and political aspects have only recently come to the surface. As code increasingly penetrates daily life, it becomes de facto law that regulates behaviour, argues Lawrence Lessig, a Stanford law professor, in his book "Code and Other Laws of Cyberspace" (Basic Books, 1999). For example, code needs to be compatible with our ideals of privacy and free speech. Another pressing issue is open standards. The continuing antitrust trial against Microsoft has shown that the world needs common technical rules that are not controlled by a single company (or indeed a government). Such rules can provide a level playing field for competition. But they must not be too strict, because that would stifle innovation and diversity.

The other main regulatory issue is less obvious: it concerns directories, the digital equivalent of telephone books. Even more than open standards, they will hold the cloud together. Some directories will tell users where to find web services and what they offer; others will keep track of available hardware; and yet others will list not only the identity of users, but also where they are and whether they are online at that moment.

The reason why these directories might need to be regulated is that they are subject to strong networking effects: the more data they contain and the more users they have, the more valuable they become and the more data and users they will attract. Sometimes it will even make sense to have a single directory, as it does for the domain-name system (DNS), the current address book of the Internet. Competing domain-name systems would probably balkanise cyberspace.

Whoever controls such directories will wield potentially enormous power. If a company owned, for example, the directory for web services, it could try to make its own electronic offerings more accessible than those of its competitors. The continuing controversy about the Internet Corporation for Assigned Names and Numbers (ICANN), the body that administers the DNS, is the clearest example so far of how difficult it can be to regulate these directories.

There are other simmering disputes, too, such as whether and when AOL Time Warner should open its dominant instant-messaging (IM) system and extend it to other providers. The point about IM, a cross between a telephone call and e-mail, is that it keeps track of whether users are currently online and, in the future, will also be able to monitor where they are. This is important information for providers of smart web services. That is why the Federal Communications Commission (FCC) made its approval of the AOL/Time Warner merger contingent on the new company's promise to open up its IM system once it includes video services.

Microsoft had heavily lobbied the FCC, telling the agency that for IM to live up to its promise it must share the features of "openness and interoperability that characterise both the public telephone network and the Internet". It will be interesting to see whether Microsoft will apply the same philosophy to its own recently announced directory-like services, intended to become building blocks of the .NET world.

Luckily, the Internet is already helping to solve some of these dilemmas. Its very structure, for instance, has caused the software gap to narrow. Programmers no longer have to live in America or other developed countries, but can work from anywhere on the globe. In the future, there will increasingly be a global market for software development, just as one already exists for the manufacturing of electronics. The fast-growing software industry in India is only the beginning.

Moreover, the Internet allows for massive testing and peer review, boosting the quality of code, in particular through open-source projects. The more people look at a program, the more likely it is that mistakes will be spotted. "Given enough eyeballs, all bugs are shallow," writes Eric Raymond, another leading thinker of the open-source movement, in his influential book "The Cathedral & the Bazaar" (O'Reilly, 1999).

Finally, it is the Internet's institutions—such as the Internet Engineering Task Force (IETF)—that offer a possible solution to the regulatory issues. These consensus-building bodies are not just a good mechanism to develop robust and flexible open standards; their decision-making processes could also be applied to other issues, such as the regulation of directories. These communities are guided by respected members, known as "elders" or "benevolent dictators" (for open-source projects), who have gained their status because of the quality of their contributions.

Most of these elders are technical and social engineers who work for academic institutions or other not-for-profit organisations. Governments would do well to provide economic support for these elders instead of regulating directly, argues Paul Romer, an economics professor at Stanford University: "This would be money far better spent than on antitrust actions or agencies like the FCC."

This may be the Internet's most crucial effect on the software industry: that it has made it possible for groups akin to scientific communities, rather than market forces alone, to lay the groundwork of the digital world. That seems to be a far sounder solution than allowing a small handful of firms to become the not-so-benevolent dictators of the cloud.

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Offer to Readers

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Ports in a storm

Apr 12th 2001 | HONG KONG AND SINGAPORE
From The Economist print edition

The world's two biggest ports, Hong Kong and Singapore, are discovering that competition affects their industry as much as any other

YOU might expect the perennial rivalry between Hong Kong and Singapore to extend to their ports, by far the two biggest in the world. Not so. It was by becoming "entrepôts"—ie, ports that developed into commercial centres with related industries—that the two cities became rich and modern, and they managed to do this simultaneously by not competing with each other. In effect, each entrepôt carved its own stronghold from different niches of the world trading system. Imagine, therefore, the excitement among the world's shipping lines now that both ports suddenly confront upstart rivals across their bays.

Last autumn, PSA, Singapore's state-owned port operator, lost its largest customer, Maersk, to a brand-new port in Malaysia that is only 40 minutes away by car. This defection was one reason why PSA postponed an initial public offering on the stockmarket. In March, a Chinese government official in Shenzhen, 40 minutes' drive from Hong Kong, announced that China would bar foreign investors from controlling its ports. His comment was aimed at Li Ka-shing, a Hong Kong tycoon (and, for these purposes, a "foreigner"), whose flagship company, Hutchison Whampoa is the biggest port operator in the world. Hutchison had taken a majority stake in one of Shenzhen's two new ports.

There are important differences between the ports of Hong Kong and Singapore—and so in their predicaments. The best place to see this is at the terminal gates. In Hong Kong, these are often congested with trucks, and chaotic; in Singapore, they (as so much else in life) tend to be orderly to the point of being dull. The reason is that, in Singapore, 80% of containers leave the same way they arrived—by boat—whereas in Hong Kong, almost all of the containers are driven through the gates, to and from the hinterland. In the industry jargon, Singapore is a "trans-shipment" hub, whereas Hong Kong is a "local cargo" port.

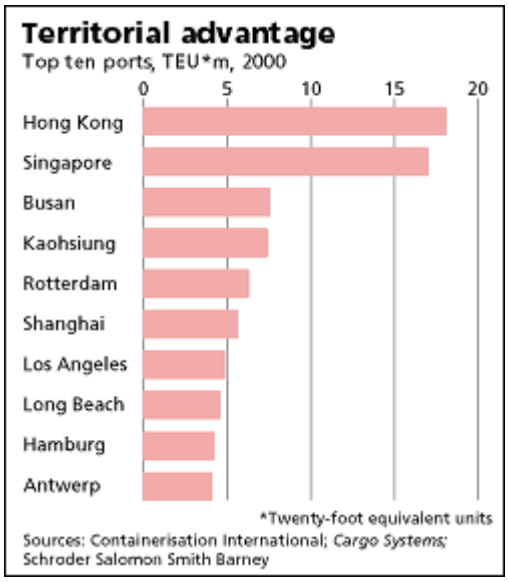
For this difference, they have their locations to thank. Virtually everything that travels between Europe and East Asia passes through the Straits of Malacca. Singapore merely provides the reloading hub. By contrast, Hong Kong sits at the mouth of the Pearl River in southern China, the world's biggest manufacturing region. The way the two former British colonies responded to these opportunities is characteristic of their respective approaches to industry. In Singapore, the government runs the terminals. In Hong Kong, the state leaves it to the private sector. For the operators and cities alike, both arrangements have worked well.

Shipping lines, on the other hand, have been much less enthusiastic, because calling in at Singapore or Hong Kong is expensive. Nobody in the industry discloses port charges, but Charles de Trenck, an analyst at Schroder Salomon Smith Barney, reckons that it costs twice as much to handle a container in Hong Kong as in a port on America's west coast. Hong Kong and Singapore justify this, to some extent, by being the most efficient ports in the world. Still, ports have profit margins as high as 40%, whereas shipping lines barely have any—which is why they crave choice.

That craving has been strongest in the stronghold of Singapore. Until last year, Maersk, a part of AP Moller, a Danish conglomerate, provided some 11% of PSA's volume alone. Since Maersk also happens to be the world's third-largest port operator (after Hutchison Whampoa and PSA), it has been begging PSA

for years for permission to run its own terminal in Singapore, to save some money. The Singaporeans, determined to keep control, rebuffed Maersk. This now looks like a miscalculation.

Malaysia had long been smarting over losing the trans-shipment trade to Singapore, a political and economic rival. So it built a port so close to Singapore's that ships would not have to stray from international shipping routes to berth there. The new port opened last spring, offering essentially the same service as PSA, but at a 30% discount. All it needed was a big customer for credibility. The match with Maersk was easy. PTP, as the Malaysian port is known, allowed the Danes to run their own terminal. In return, they took an equity stake in the port.



Singapore handled this defection appallingly. Its reaction was to bully. On the very day, last October, when its long-term contract with Maersk expired, PSA started underwater "repairs" in the terminal, in effect blocking Maersk's access to Singapore's port. At one point, Maersk executives could see four or five of their gigantic light-blue ships queuing up in the waters near Sentosa, Singapore's palmy entertainment island. "It screwed up our entire global network," says one. PSA also leaned on smaller lines. This may yet backfire: several are said to be considering leaving for Malaysia.

Portentous

The episode made waves as far away as Hong Kong. Here, the issue of competition, or the lack of it, is more complicated. Hutchison Whampoa dominates the business, although three other operators also run terminals. Little is known about their pricing, but allegations surface from time to time about oligopolistic practices. Hutchison declines to comment, but Modern Terminals, the biggest of the smaller operators, rejects such talk. "This oligopoly stuff is baloney," says Erik Christensen, its director. "My customers do have a choice, and Singapore proved that by forgetting it." Modern Terminals did not make the same mistake: it has Maersk as a customer, and offers, by some measures, the best service in the world.

The debate about competition among Hong Kong's port operators is fast becoming moot, however, because the territory's facilities are running at full capacity (in contrast to Singapore). They will be further stretched as trade booms up the Pearl River Delta, which reaches deep into China, as far as Guangzhou. New terminals are under construction, but will not be ready for two years and may not be big enough anyway. Instead, most new capacity will come from the two new ports in Shenzhen, which are expanding quickly. They are as well located as Hong Kong, but cheaper.

Unlike the Singaporeans, however, both Hutchison and Modern Terminals hope that they can benefit from the rise of new rivals. Each has taken a stake in one of the Shenzhen ports. The local government welcomed this foreign expertise and capital at first. But as Hutchison, in particular, has extended its dominance from Hong Kong to Shenzhen, and then to Shanghai and other Chinese ports, the authorities have grown edgy.

They are not alone. Hutchison has already raised some eyebrows at the European Commission over its market power in Rotterdam and other European ports, and has been forced to retrench in some places. Such attention is a new development in western economies. Except for Britain, which has privatised its docks, governments in rich countries tend to regard ports as "public goods" that belong naturally in the public sector. The examples of Singapore and Hong Kong are changing that. They are a reminder that ports are a business like any other: there is money to be made, and there should be competition to its making.

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Intellectual property in India

Developing

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WHY does India not have more innovative home-grown companies? After all, Indian engineers and scientists form the backbone of Silicon Valley's workforce, and they continue to pour into companies across the world whenever visas can be wheedled out of governments. And Indian firms such as Wipro and Infosys have made billions of dollars in the past few years by getting their highly skilled programmers to do the IT drudgery of the world's top companies. But will India's own companies ever venture out of the back office and start developing intellectual property of their own? To do this, they need to reverse the brain drain into foreign outfits or offshore-services firms.

To some degree, that now seems possible. When Kumar Sivarajan, an expert in optical networking, returned to India from IBM's prestigious Thomas J. Watson research centre, he was courted by many international companies. But he opted instead to join a local software start-up called Tejas Networks. The firm has been able to poach engineers not only from the Indian labs of Cisco and Lucent, but from as far away as Bell Labs in New Jersey. Project managers at foreign firms' research labs are now frequently lured by local ventures. Even Texas Instruments, which has had facilities in Bangalore since 1985, has felt the pinch of this start-up bug: some half a dozen of its top Indian engineers recently left to strike out on their own.

In the life sciences, too, Indian investors hope to turn local R&D into commercial success. Last December, Purnendu Chatterjee, head of an investment fund backed by George Soros, set up a company called Chembiotek to conduct life-sciences research near Calcutta. While paying its bills by doing contract research for Bayer and Procter & Gamble, Chembiotek is moving forward with its own R&D activities. For instance, its 30 scientists are investigating gene therapy with a view to developing a cure for diabetes. The facility plans to hire 80 more senior chemists and biochemists within the next two years.

In the long term, the hope is that Indian firms and individuals who have made their fortunes abroad, or by doing contract work for foreigners, will plough money back in the form of venture capital. This is already happening. For example, e4e, an American technology company founded last autumn by Somshankar Das, a Silicon Valley-based venture capitalist, along with Wipro's former head of R&D, plans to spend $300m incubating Indian start-ups over the next three years. Rafiq Dossani, a Stanford economist, estimates that $5 billion in venture capital has been raised for investments in India over the past year.

Once that money is put to work, Indian businesses may see another first: a shortage of manpower. According to a recent survey by India's National Association of Software and Service Companies, demand for IT professionals is expected to rise from 340,000 last year to 800,000 by 2005. Big companies are throwing money at the problem: Cisco, for instance, has pledged the Indian government $10m to set up 30-odd "networking academies" across India. If the present venture-capital boom continues, many of their graduates will have a shot at setting up their own home-grown firms. The rest will no doubt find something to do at Cisco.

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Utilities

Pondhopping

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ONLY ten months have passed since Veba and Viag, two German utilities, were knocked together to form a new company, E.ON. The metamorphosis did not stop there. E.ON has been continuously casting off "non-core" businesses, from telecoms to packaging, and trying, usually unsuccessfully, to merge with other European utilities. On April 9th came the latest, biggest stage in its transformation. If it wins regulatory approval in Europe and America, it will make a friendly offer for Powergen, a British energy company. The deal, which will cost E.ON £5.1 billion ($7.3 billion) in cash, will turn it into the world's second-biggest energy supplier behind Electricité de France.

E.ON's boss, Ulrich Hartmann, calls the takeover a "double hit". First, E.ON is leaping into another European country. As well as minority stakes in Russian and Swiss energy companies, it owns 40% of Sydkraft, a Swedish electricity company, and it has offered to buy the rest. Second, in LG&E, Powergen's Kentucky subsidiary, it will also acquire a springboard into the huge American energy market. Mr Hartmann says that he wants to buy more companies in the United States, especially in the mid-west.

Like other utilities, including RWE, its German rival, E.ON's ambitions are narrowing in scope at the same time as they are spreading geographically. The vogue these days is to become a "multi-utility", supplying electricity, gas and water, but little else. As E.ON moves into America, it is also becoming a more dedicated follower of fashion.

Just as well, because American law requires it. Buyers of American utilities must themselves be mainly utilities. Presenting the planned takeover, Mr Hartmann promised a long list of divestments that will help E.ON to comply. Much of this, such as the sale of its interests in oil, logistics, aluminium and the manufacture of silicon wafers, was planned anyway. However, E.ON is now going further than it had previously promised. Within three to five years it will sell its 65% stake in Degussa, a listed chemicals company. Until now, E.ON has maintained, albeit without much conviction, that chemicals was a core activity.

As a side effect, the same law will help to dismantle a small part of Germany's web of corporate cross-shareholdings. It says that utilities' owners should themselves have no shareholder that owns more than 5%. Allianz, a big German insurer with many stakes in other companies, holds just over 10% of E.ON. It and the state of Bavaria, which owns just over 5%, will have to sell some shares if the deal is to go through. Talks are expected to start after Easter.

Allianz has already shown that it is prepared to reduce its stake in E.ON if the price is right. Last December, it issued securities worth *euro*2 billion ($1.8 billion), whose value is linked to the performance of the German stockmarket. When these mature in 2004, Allianz can choose to redeem them with shares in three companies: one is E.ON.

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A new chapter for PG&E

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Get article background

FOR months it has teetered on the brink, while California's politicians have wrestled to keep it from falling. Then, on April 6th, Pacific Gas & Electric (PG&E) turned its back on its would-be rescuers and pitched itself into bankruptcy. It is the largest utility and the third-largest American firm of any kind ever to file for Chapter 11 of America's bankruptcy law. Doing so weakens politicians' influence over its fate by placing it in the hands of a bankruptcy judge, whose 14-year term of office insulates him from worry about elections.

The troubles started because regulations prohibited both PG&E and Southern California Edison, the state's other big utility, from raising the rates at which they sold electricity to retail consumers. When wholesale power prices soared last year, the utilities plunged into debt. California's politicians have been falling over themselves ever since to unscramble the mess.

The immediate impact of PG&E's bankruptcy on consumers will be minimal. The utility will continue to manage the distribution of power to its 13m customers in northern California; the risk of power cuts later in the year has not changed, since the same supply shortages apply as before. The Chapter 11 filing will allow PG&E to devise a plan to meet as much of its debts as it can, but it will not solve the fundamental crisis.

If it is to dig itself out of trouble, what PG&E really needs is a rate increase, coupled with clearance to use the extra revenue to pay down its debts. Normally, increases can be imposed only by the state regulatory commission. A bankruptcy judge, however, has wide authority to ensure that creditors get as much of what they are owed as possible, and lawyers for PG&E may argue that this would include ordering the state to raise electricity rates. This theory has never been tested. A bankrupt Texan utility made a similar argument in the early 1990s, but the case was settled before the judge could rule.

Creditors (and bill-payers) may try to direct the court's attention elsewhere in the search for funds. In the years before wholesale prices soared, PG&E passed big profits up to its parent company, PG&E Corp. So far, the parent has kept its cash from trickling back down to its ailing offspring, but the rumble of populist Californian anger about profiteering has been growing louder. PG&E Corp could find itself exposed to protracted legal scrutiny of the efforts it has made to insulate itself from the risks of a market in which it has profited handsomely.

Whatever the stratagems, the legal process is likely to be protracted. Chapter 11 cases, although becoming less frequent overall, have risen among the largest firms in the past 15 months, thanks to bad debts generated by a resurgence of junk-bond issues starting in 1998. The average case lasts a year, but some can run to seven years, and this one is both big and complex. Californians and their politicians will, however, face a reckoning sooner than that, with the summer promising power cuts, recession—and the very rate increases that they have tried to avoid.

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Face value

A revolution of one

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From The Economist print edition

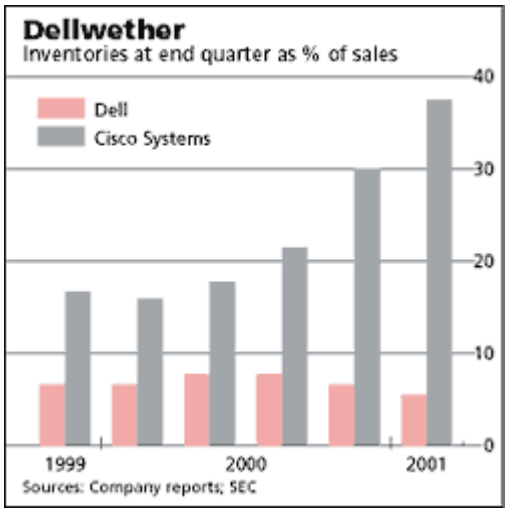
Michael Dell invented a business model that all the world wanted to copy. Yet after all these years, almost nobody has. Why?

FOR all his success, Michael Dell has a lot to answer for. Bookshelves groan under the weight of books that discuss how best to learn from Dell Computer's nifty model of selling directly to consumers and making PCs to order. No e-business conference is complete without a few slides on Dell's virtual supply chains and enviably slender inventory. Executives from traditional manufacturing giants, such as Maytag and General Motors, make pilgrimages to Austin, Texas, to learn the Dell Way. After General Electric's Jack Welch, there is hardly a more admired boss than Mr Dell, the man who turned the commodity business of PC making into a goldmine by doing things differently.

Now come the hard times, exactly what Mr Dell's famous near-zero inventory model was designed to weather best. And so far his company has indeed held up well: on April 5th, Dell announced that, unlike most of its peers, it would not be cutting its (admittedly modest) profit forecast for the latest quarter. But what of those companies that copied the Dell model? Have they done as well? Hard to say: for the most part, they seem not to exist.

Nearly 20 years after Mr Dell started his PC company, it remains in a class of one. Others may have adopted a bit of his model here and a bit there, but none has taken it far. Gateway, which began life as a Dell clone, has since diverged with own-brand stores complete with—gasp!—depreciating inventory. Dell's biggest competitor, Compaq, still sells most of its wares through indirect distribution channels. And Cisco proved just how unlike Dell it is in the most recent quarter, when its inventory spiked to nearly 40% of sales. Dell's is less than 6%, and falling (see chart).

Outside the technology industry, the Dell-alikes get even thinner. Mercer Management's Adrian Slywotzky, author of one of the books that lionises Dell, can think of only two examples, to his surprise: Marshfield DoorSystems, formerly Weyerhaeuser Door (which makes customised doors) and Herman Miller, a maker of office furniture.



Mr Dell himself is less surprised. Few industries, he says, have all the ingredients needed to copy the Dell business model properly. And even in those that do, established companies are usually far too wary of undermining their existing businesses and sales channels to push direct buying particularly hard.

Dormitory days

When he started his business in 1984, Mr Dell had no great plans to reinvent PC making. He simply wanted to assemble and sell computers out of his university dormitory. This was possible because a PC-clone industry had just emerged in the wake of IBM's first machine, complete with an explosion of suppliers. Computer companies no longer needed their own research and manufacturing operations; instead, they could focus on assembly and marketing. Although Mr Dell did not know it at the time, the new PC industry had several other traits that made it ideal—perhaps uniquely ideal—for the streamlined direct-sales operation that Dell now epitomises.

As Mr Dell lists those qualities, it becomes a little clearer why so few other firms have followed in his footsteps. For a start, PCs are made almost entirely from standard parts, available from many sources; there is no need to order special components long in advance. Consumers want to customise PCs, but within limits: faster or slower processors, more or less memory, but not their own colour or trim. Such limited customisation encourages a build-to-order model, without the need for a supply chain drowned by a huge number of parts. Moreover, the most expensive PC components quickly become obsolete and thus lose value by the day, so a PC maker's profitability is determined largely by the size of its inventory. This creates what Mr Dell calls "profit pools": fat margins for the taking, if a company can slim down its stock of components by being more efficient than its competitors.

Are there many other industries that share these traits? Mr Dell shrugs off the question. But all those visits from car companies have given him some insight into one other candidate, at least. American car makers put up with $80 billion worth of inventory a year, of which $50 billion is built in anticipation of orders. That satisfies the criterion of a high cost structure. Yet taking the car industry very far into Dell territory would quickly run into problems. Car companies have huge sales and distribution channels that fight fiercely any attempt to circumvent them; in almost all American states, it is illegal to sell cars any way but through a local dealer.

Might a big technology company such as Cisco stand a better chance of becoming Dell-like? Cisco's most expensive parts are custom processors and other semiconductors that it designs and commissions from chip makers. This violates Mr Dell's rule of industry-standard parts. Because Cisco asks its suppliers to make unique components, it must order to forecast. When it gets the forecast too high, it must take the components and watch them lose their value in a warehouse; if the forecast is too low, it cannot quickly find another supplier to make the parts. By contrast, when Dell is gaining market share it can simply take parts that were destined for its rivals; were it to lose share, it could easily sell unwanted stock.

Might more businesses eventually take on the characteristics of PC making? The lesson of the past decade is that it will take longer than most guessed, if it happens at all. That could be good news for Mr Dell, who gains market share when his competitors prove unable to follow him, but it is bad news for the consulting industry that fed off his success. Mr Dell may be an inspiration, but he is too unique to be the paint-by-numbers role model the world had hoped to make him.

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Online services

The human touch

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From The Economist print edition

Two articles consider how companies are changing the way they use the Internet. The first looks at a new wave of "cyborg" firms that combine computer power with human expertise; the second examines why previously free services are now being charged for

DESPITE the best efforts of programmers, there are still many things that computers just cannot do. Examples include distinguishing between suspicious and legitimate behaviour on a corporate network, or sorting junk e-mail from genuinely important messages, or providing detailed answers to particular questions. For these tasks, which require judgment, expertise and experience that cannot be easily captured in software, some firms have adopted the unusual tactic of using people as part of their network infrastructure. Such "cyborg" companies use computers as levers for the mind, to make the most of precious human expertise.

Counterpane Internet Security, based in San Jose, California, uses this technique to provide a security-guard service for corporate networks. Its founder, Bruce Schneier, realised after many years of working as a security consultant that no network could ever be made truly secure, no matter how much fancy hardware and software was available. There would always be weak spots, often caused by human failings. The best approach to security, Mr Schneier decided, was to assume that break-ins will occur—and to use people to spot them.

Special software exists to identify network intrusions, but once an attacker has worked out how the software works, it can be circumvented. Human experts, on the other hand, are harder to fool, although software is still needed to enable a single operator to keep watch on dozens of networks simultaneously. Counterpane's approach is to install "sentry" machines on its clients' networks. These relay a stream of status messages to a central secure operations centre. Human operators sitting at consoles monitor the status of around 50 sentries at once, watching for anomalous behaviour. If anything fishy is detected, the alarm is raised and the client's technical staff can take appropriate action.

Using highly trained people to look out for trouble has a number of benefits. For a start, there are economies of scale: since intrusions are rare, each operator can watch many networks at once. This also enables operators to spot trends that would otherwise go unnoticed—such as a hacker using a particular style of attack on several different networks, or aiming at firms in a particular business (such as banking or e-commerce). And operators can make allowances for human foibles, such as recognising the night-shift operator with chubby fingers who tends to mistype his password.

Brightmail, based in San Francisco, also uses people to filter information flowing across the Internet. Its customers are Internet service providers that want to stop junk e-mail, or "spam", and messages infected with computer viruses, before they reach their intended recipients. This process can be

automated, up to a point, but spammers and virus-writers quickly find ways to defeat most software filters.

Brightmail's operators monitor decoy e-mail accounts, looking for new examples of spam or viruses that can defeat filters. When an example is found, the operators update the filter, and the new filter is then automatically relayed to Brightmail's customers. Since sending out a million junk e-mails takes quite a while, this rapid response makes it possible to detect and destroy subsequent messages before they do any damage.

The cyborg firm that comes closest to the sci-fi vision of people plugging cables into their heads is Keen, another San Francisco firm. Keen in effect allows experts to rent out their brains over the Internet, charging by the minute. Anybody can register on Keen's website as a "speaker" on a particular subject, such as computer troubleshooting, tax regulations or tarot-card reading. Speakers specify when they are available and set a billing rate, which averages $2 per minute.

Users of Keen who are looking for answers to a particular question choose a speaker and click a "call now" button. Keen then calls both the user and the speaker over the ordinary telephone network. Once the call is over, the user is billed and is also invited to give the speaker a numerical rating, which appears on the website and helps distinguish real experts from charlatans. Speakers pocket 70% of the call revenue; some are earning over $2,000 a week.

According to Karl Jacob, the firm's boss, Keen has been successful—it is one of the 20 most popular Internet merchants, and has more than 2.5m paying customers—because people want answers from people, not computers. Talking to a person is better than reading even the most detailed list of "frequently asked questions", he suggests, because it is easier to assess the trustworthiness of the information provided and to focus on a particular topic of interest. Keen has just launched its service in Britain, where a MORI poll found that nine out of ten people would rather talk to another person when searching for expert advice than scour the Internet. Even in the disembodied world of the web, there is a lot to be said for the human touch.

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The Internet

Easy.com, easy.go

Apr 12th 2001 | SAN FRANCISCO
From The Economist print edition

CALL it the end of the free lunch. In recent years, consumers have become used to feasting on online freebies of all sorts: news, share quotes, music, e-mail and even speedy Internet access. These days, however, dotcoms are not making news with yet more free offerings, but with layoffs—and with announcements that they are to start charging for their services.

Content sites pioneered the trend. To gain access to Variety.com, the online version of the film and music-industry news magazine, as well as to some sections of TheStreet.com, a business-news website, users now have to pay an annual subscription of $59 and $199.95 respectively. Salon.com, a political and literary online magazine, offers its readers a choice: either put up with bigger advertisements or pay a subscription of $30 a year. Now other types of electronic offering, such as PayMyBills.com, are also morphing from free to fee.

The company that everybody is watching is Yahoo!, an online media giant. If the Silicon Valley company, which attracts nearly 190m users a month, cannot get people to pay up, few other consumer websites will be able to manage it. Faced by a shortfall in advertising revenue, Yahoo! is now trying to make money elsewhere. Earlier this month, it introduced a real-time share-quote service for a monthly fee of $9.95 and announced that it is to market an online music subscription service called Duet, which will be launched by Sony and Vivendi Universal this summer.

It comes as no surprise that Internet firms should be looking for new revenue streams. Although dotcoms have mostly been depicted as the epitome of entrepreneurship, many are in fact the product of virtually free access to capital. Venture capitalists, equity markets and banks pumped billions into online start-ups—to reach as many “eyeballs” as possible and then supposedly “monetise” them by selling advertising. But those days are over. Now, these firms have to come up with more plausible business models.

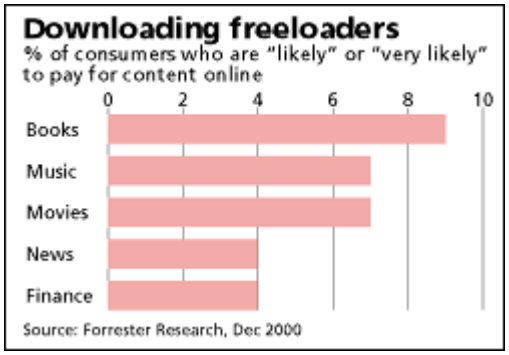
This will not be easy, especially for content providers. The recent trend notwithstanding, there will always be a lot of free material online, with which paid sites must compete. Volunteers are producing more and more Internet content, for example in the form of “web logs”, online diaries about anything imaginable, which are sometimes better than professional journalism. And many commercial sites will resist the urge to charge. Print publications, for example, are unlikely to scrap their free online editions soon, because these generate a lot of new print subscriptions and have (so far) only slightly dented the publications’ offline businesses, if at all.

Can pay, but won’t

The real problem, however, appears to be that Internet users have come to expect online services to be free, at least in America. Only pornography websites, and the online edition of the *Wall Street Journal*, have so far attracted a large number of paid subscribers. Consumers’ unwillingness to pay (see chart) appears to be particularly pronounced when it comes to services that were formerly free. When Yahoo! started charging fees for its auction services in January, for instance, listings dropped by more than 80%.

Even those users who are willing to open their wallets are loth to make small payments here and there, preferring instead to pay a flat fee, says Andrew Odlyzko, a researcher at AT&T Labs. This aversion to being “nickelled and dimed” does not bode well for sites such as Yahoo! that want to charge extra for this or that premium service. Instead, it favours the business models of companies such as AOL, whose subscribers pay a flat monthly fee that gives them access to most of AOL’s content and services.

So what is a struggling dotcom to do? The best hope is just what most, including Yahoo!, are doing: to cut costs, broaden existing revenue streams and tap into new ones as much as possible. Some Internet companies, such as CNET Networks, have already made more space for advertisements. Others have syndicated their content and services to other websites or are trying to make money from e-commerce. Interestingly, the start-ups that seem to be best prepared for these changes are those that, for one reason or another, were not showered with cheap capital and always had to struggle to make ends meet. An example is PlanetOut.com, a website aimed at gays and lesbians.



Many Internet start-ups will end up closing their virtual doors—or being bought by large traditional companies, once valuations have dropped low enough. It would be ironic indeed if many erstwhile leading lights of the "new economy" ended up as loss leaders of some boring old-economy corporation.

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Czech television

Fuzzy picture

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From The Economist print edition

AP

Merciless Zelezny

THE battle for control of Russia's NTV station has grabbed most of the headlines in recent weeks, but equally gruesome television-industry dramas are being played out in other parts of the post-communist world. One intriguing example is the long-running scrap over the Czech Republic's TV Nova, the most successful commercial-television start-up in Central Europe.

TV Nova was founded by Ronald Lauder, heir to the Estée Lauder cosmetics fortune, along with Vladimir Zelezny, a Czech. Mr Lauder says he invested $140m in the channel before Mr Zelezny stole it from him. After winning $23m against Mr Zelezny in arbitration, Mr Lauder is now seeking further satisfaction by suing the Czech Republic for $500m in international courts, for not protecting his investment. He has already embarrassed the Czech government by taking out full-page advertisements in American papers giving warnings of the dangers of investing in the Czech Republic.

The relationship began well enough. In 1992 it was agreed that Mr Zelezny, who held the necessary operating licence with Czech partners, would manage TV Nova; Mr Lauder's company, CME, and its subsidiaries would provide content and services. Mr Zelezny, a fast-talking former dissident, understood what working-class Czechs craved: smut, soap operas and sensationalism. "He would broadcast porn at three in the afternoon if he could," says one Prague insider. TV Nova quickly established itself as the most profitable station in Central Europe and became the main provider for CME, turning a profit of $500,000 a week. That partly offset CME's disastrous performance in other formerly communist markets, not least in Poland, where the company had lost $86m.

Things turned unpleasant in 1999. When Mr Lauder fired Mr Zelezny in a dispute over TV Nova's licence—which Mr Lauder needed in order to sell CME to a prospective buyer—Mr Zelezny simply took the licence and set up his own operation, cutting CME out of the loop. Mr Zelezny brushes off the range of charges against him. "It is a local war with a global player," he says.

Fred Klinkhammer, a Canadian who took over from Mr Lauder as head of CME, is contemptuous of Mr Zelezny, accusing him of benefiting from pervasive corruption in the Czech Republic's regulatory bodies. He claims to have forensic proof that Mr Zelezny forged important contracts. Mr Zelezny, naturally, has forensic findings of his own that contradict this.

Through it all, TV Nova has continued to prosper. When he walked out on Mr Lauder, Mr Zelezny points out, all he had was the licence. "In three weeks we achieved the same ratings. We had nothing. No building. No cameras. No archive." That is not quite true: Mr Zelezny had friends in high places and generous lines of credit from local banks. TV Nova now has a 52% share of the market. Mr Zelezny puts the success down to lean management and "mercilessly commercial" programming—referring perhaps to the channel's naked weather-girls.

Even if Mr Zelezny is cornered into paying the $23m he owes Mr Lauder (he claims that a contract with an obscure Liechtenstein company exempts him), local analysts reckon that TV Nova will continue to make money, helped by a protracted strike at the rival state television group. Mr Zelezny is despised by the print media; Czech politicians, with an election due next year, cannot afford to be so unfriendly. TV Nova news, after all, is watched by 73% of Czechs.

Mr Zelezny has big plans. He would like to buy his own studios, to expand into Slovakia (where he wants to knock a CME-owned station out of business) and to set up two or three subscription channels, priced

within reach of middle-class Czechs. His big dream, however, is to break into radio. “It is all about adding value with the minimum of investment,” he says. That is something CME has learned the hard way.

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Rebirth of a salesman

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FOR all the new technology applied to the manufacture of drugs, the marketing of pills remains a curiously old-fashioned practice. In America, an army of 63,000 drug-firm sales reps pound the pavement in an attempt to persuade doctors to prescribe their company's products. Last year, such doctor "detailing" accounted for almost half of the $15.5 billion that drug companies spent on product marketing.

Unfortunately, more money and manpower do not necessarily buy the ear of doctors, who have little time to listen to drug salesmen who turn up on their doorstep. According to Health Strategies Group, a consultancy, only 60% of such visits result in a meeting with a doctor, which is anyway usually only a brief encounter: almost 90% of such meetings last less than two minutes. This is frustrating for the pharmaceutical firms, which are keen to push their products quickly and so get ahead of rivals.

A solution may lie in electronic marketing or "e-detailing". A dozen firms have sprung up to pitch drugs to doctors over the web and via other remote channels, giving them easy access to such information at times that are convenient. Some ventures, such as ePocrates, send brief product information on to the handheld devices that are now used by 130,000 American doctors, who can get more information about a drug made by, say, Eli Lilly, by sending a message requesting it.

Another firm, RxCentric.com, based in New York, acts as an Internet service provider (ISP) for doctors, offering them access to product information on the web. The firm alerts doctors to new products by e-mail; they can then get more details by visiting drug companies' sites within the RxCentric ISP.

Many doctors would welcome meetings with sales reps if only they could take place at a better moment. This is what iPhysicianNet, based in Arizona, hopes to facilitate. The firm has installed computers, with high-speed phone lines and video-conferencing equipment, in the offices of almost 7,000 of America's highest-prescribing doctors. In exchange for this free set-up, doctors agree to participate in one video-detailing session per month with each of the nine drug makers—among them Merck and GlaxoSmithKline—that pay for the service.

Sales reps can use this system to request a session with a doctor, who can then respond at a more suitable time. Because the session takes place at the doctor's convenience, it lasts on average four times longer than typical sales visits. Moreover, the video format allows sales reps to show data and other visual aids that make the session more informative—something that a rushed meeting in the doctor's surgery rarely permits.

iPhysicianNet claims that each video session costs $110, compared with almost $200 for a real-life encounter. It also says that pilot trials have shown that its service boosts new prescriptions by 14% compared with the knock-on-the-door approach. W.R. Hambrecht, an investment bank, predicts that drug companies will spend $600m on e-marketing by 2004. In pharmaceuticals at least, shoe-leather salesmanship is slowly losing its shine.

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Corporate durability

A talent for longevity

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AFTER a decade or so when new companies seemed to dominate the headlines, old companies may at last be back in fashion. There is something reassuring about a company such as Shell or General Electric, which were in the world's top dozen by market capitalisation way back in 1912 and are still there today (see table). But why are some companies more durable than others?

The key, says Jerry Porras of Stanford University, who gave a lecture on great and long-lived companies at the Royal Society of Arts in London on April 11th, is "the way a company is put together". He is doing a study of European companies that are not just survivors, but widely admired and respected: the list includes Shell, Siemens, BMW and—sadly—Marks and Spencer. A similar study in America, he says, showed that admiration and durability went together with "making a contribution to the environment in which they operate" and being "deeply embedded in the fabric of society".

Where are they now?
Top global companies, market capitalisation

1912*, $bn		April 6th 2001, $bn	
US Steel	0.74	General Electric	409
Exxon	0.39	Microsoft	301
J&P Coates	0.29	Exxon Mobil	284
Pullman	0.20	Pfizer	259
Royal Dutch/Shell	0.19	Wal-Mart	229
Anaconda	0.18	Citigroup	218
General Electric	0.17	Royal Dutch/Shell	196
Singer	0.17	Vodafone	189
American Brands	0.17	NTT DoCoMo	189
Navistar	0.16	BP Amoco	188
BAT	0.16	American Int Group	177
De Beers	0.16	Merck	176

*Companies under current names
Sources: John Kay; Thomson Financial Datastream

One reason why some successful firms do not endure, argues David Garvin of Harvard Business School, is that "relatively few business sectors are forever." That helps to explain why Pullman and Singer have vanished from the top dozen: no longer do people travel much by train or run up most of the family's clothes at home. In that sense, he says, the big oil companies are anachronisms; for, sooner or later, the world will run out of hydrocarbons. If they have not found a new niche, they will go the way of US Steel.

Mr Garvin, who is doing a five-year study of the management of ten global giants, sees two main routes to durability. One is "active reinvention", such as GE's ability deliberately to adapt. The other is "organic adaptation": 3M, founded in 1902, has survived by edging sideways from abrasives and adhesives into new markets. Looking at the crop of companies that have soared to the top in the past decade or so, he singles out Dell Computer as possibly having sufficiently flexible and transferable supply-chain management to be tomorrow's 3M.

Reinvention and adaptability are not the whole story, however. John Kay, a British economist, points to the importance of competitive advantage. Market power, of the sort conveyed by licences or regulation, tends to erode over time. Technological innovation brings transitory gains, unless a company understands how to reinvest to widen its base, as Glaxo has done. But brands and reputation, if managed properly, can also prove remarkably durable. Yet "it is possible to screw up," admits Mr Kay. "My students cannot believe that Hilton was once a generic term for a very good hotel." GE is an extraordinary example of a company whose strength lies in its ability to pick and train the best managerial talent. For most of the 20th century, GE had a succession of chief executives just as admired as Jack Welch.

None of these explanations answers the question that John Sunderland, chief executive of Cadbury Schweppes, who chaired Mr Porras's lecture, poses. His company is a combination of 200-year-old Schweppes and 150-year-old Cadbury, imbued with the strong social conscience of the Quaker Cadburys and owner of some of Britain's (and the world's) best-known food-and-drink brands. That might explain why the company is both durable and admired. Yet, as Mr Sunderland points out, Rowntree was also a 150-year-old Quaker company with a stable of brilliant brands, but "was sold out [to Nestlé] by the investment managers in ten minutes." What makes the difference? Sometimes, it seems, old companies just roll over and die. A bit like people, really.

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Through the wringer

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From The Economist print edition

Banks are doing more than ever before to clamp down on money laundering. But is it enough?

IN MARCH, politicians in both Britain and America expressed dissatisfaction over their countries' efforts to tackle money laundering. An influential committee of British members of parliament said that "the government should take co-ordinated, coherent and properly resourced action to fight money laundering if the United Kingdom, through the City of London, is to maintain its reputation as one of the most important international financial centres."

In America, meanwhile, a report on money laundering by Senate Democrats criticised some of America's biggest banks, including Citigroup, J.P. Morgan Chase, Bank of America and Bank of New York. In particular, the report criticised Citigroup, the financial-services giant that has done most to attract wealthy customers in far-flung corners of the earth, for failing to crack down adequately on money laundering by some of its Argentine clients. The bank subsequently admitted to "embarrassment" over its failure. "Too many banks in the United States, including some of the biggest, have been asleep at the switch," claimed Carl Levin, the senator behind the report.

Revelations of what the British committee dubbed "the worst excesses of kleptocratic states" continue to undermine confidence in the determination of banks, and the ability of governments, to tackle the problem. In February, for example, Citigroup was caught up in the corruption investigation surrounding one of its wealthy customers, Joseph Estrada, the ousted president of the Philippines.

On the other side of the Atlantic, in March, 15 as-yet-unnamed banks operating in Britain were found to have significant weaknesses in their money-laundering controls. A report released by Britain's Financial Services Authority (FSA), the main industry regulator, claimed that these banks had allowed some $1.3 billion to pass through accounts linked to the family of General Sani Abacha, a former military ruler of Nigeria. Even that was rather less than the £2 billion ($2.9 billion) that Slobodan Milosevic and his entourage are alleged to have slipped through banks in Greece, Cyprus and Switzerland during his time as leader of Yugoslavia.

Such high-profile cases have laid to rest any lingering doubts that money laundering—best defined as the processing through the banking system of the proceeds of crime, in order to disguise their illegal origin—is something that involves only drug dealers and unknown banks in banana republics, though such banks are certainly part of the story. Whether wittingly or not, many of the world's best-known banks have become a central element in the process by which crooks clean up their ill-gotten gains.

Despite the recent blaze of adverse publicity, there is evidence that big banks are taking money laundering more seriously than ever before. Most of them can show

that they are doing a great deal more than they did (even as recently as two years ago) to prevent the fruits of crime passing through their systems. The resources devoted to the task have grown rapidly, particularly the spending on technology to sift through money-transfer data for unusual activity. Citigroup, for instance, now has a 50-strong operation in Miami that is constantly watching out for suspicious activity.

Any further tightening up on money laundering faces big obstacles. Banks understandably want to protect the privacy of their customers, and they face fierce competitive pressure not to ask too many questions. Moreover, new technology (such as anonymous electronic cash) may be making money laundering easier. Even worse, attempts to crack down may fall foul of genuine differences of opinion between regulators around the world about what, for money-laundering purposes, actually constitutes a crime.

Global business

Putting a value on money laundering is, by its very nature, a matter of ill-informed guesswork. The International Monetary Fund reckons that the amount of dirty money being cleaned through the world's financial system is huge—between $500 billion and $1.5 trillion a year, equivalent to some 1.5-5% of gross world product.

Laundering has grown hand-in-hand with globalisation, and particularly with the lifting of capital controls and the development of international payment systems. These allow money to be shifted in seconds between banks in different parts of the world that may not even be aware of each other's existence. The sums of money being transferred are huge. Bank of America, for example, sees nearly $1 trillion pass through its internal wires every day. As Alan Greenspan, the chairman of America's Federal Reserve Board, has put it, the international payment system is "crucial to the integrity and stability" of the world's financial markets. But it also provides big opportunities for crooks to hide their money by shuffling it around the globe.

Private banking is the laundering channel that has received most attention. Private banking's clients tend to be wealthy people who want their affairs handled with discretion—not least because they need help in exploiting opportunities to minimise their tax bills. Traditionally, a bank that asked too many questions would find its customers taking their money elsewhere. So a "don't ask; don't tell" culture developed, in which money laundering was able to thrive.

The revelation in 1999 that the Bank of New York had become a conduit for billions of dollars of suspect Russian money drew attention to an arguably more serious issue, the use in money laundering of "correspondent banks"—banks that have their own account at another bank. Dirty Russian money was washed through the Bank of New York's systems via its correspondent banks, including one called Inkombank.

Correspondent banking is crucial to the international payment system. But if money is paid into a foreign bank's correspondent account at, say, Citigroup, it can be harder to find out about the source of the money (and its legitimacy) than if it comes through the private-banking route. This is especially true when there is "nesting"—ie, when a foreign bank opens an account at another foreign bank which has a correspondent relationship with, say, an American bank. A nested bank may gain the advantages of correspondent status without the American bank even being aware of it.

Three-quarters of the big banks surveyed in the American Senate report had over 1,000 correspondent relationships apiece. The two biggest (which were not American) had 12,000 and 7,500 respectively. As of mid-1999, the five American banks with the most correspondent accounts held $17 billion of assets in those accounts; the top 75 banks had assets of $35 billion.

To understand the complexity that this can give rise to, consider the difficulties of America's Department of Justice during the recent "Operation Casablanca", as described in the Senate report. Investigators found that funds allegedly laundered by illegal drugs traders had been wired to a bank account outside America. They asked the government of the bank's country for assistance, only to discover that the bank and account to which the money was transferred were actually located in another country. Officials in that country then tried to seize the assets, but found that the bank had no buildings or branches there. The assets securing the bank's obligations were once again outside the country. In the end, it turned out that the money was sitting in the bank's correspondent account at a big American bank in New York.

For all the recent focus on big banks in established financial centres, banks in so-called offshore centres are still the main targets of anti-money-laundering efforts. As of 1998 there were around 4,000 offshore banks licensed by nearly 60 offshore jurisdictions. Some 44% are in the Caribbean and Latin America, 28% in Europe, 18% in Asia, and 10% in the Middle East and Africa. They control an estimated $5 trillion in assets.

Offshore banks are more likely than onshore ones to be used by crooks. Many governments of small countries license banks largely because they are tidy revenue earners. They do not want to regulate these banks in a way that scares off customers. The recent Senate report in America raised particular concerns about those offshore banks that are not subsidiaries of banks that have well-regulated onshore operations.

The worst offenders are "shell" or "brass-plate" banks, which have no physical presence in any location. Some 75 of the Cayman Islands' 570 licensed banks are either shell banks or unaffiliated to any onshore regulated bank; so are 65 of the Bahamas' 400 banks. Both of these jurisdictions now say that they no longer issue shell bank licences. Most new ones are now created by more fringe jurisdictions, such as the Pacific island of Nauru, which has issued 400 licences, and the Yugoslav Republic of Montenegro, which is selling private bank licences over the Internet for just $9,999.

The new whitener

America passed the world's first law explicitly directed at money laundering in 1986. The Money Laundering Control Act made it a crime for a person knowingly to engage in a financial transaction involving the proceeds of a "specified unlawful activity". Ever since, America has been leading the global fight against it.

The recent report to Congress has stimulated fresh discussion of new legislation in America, but the chances of any new laws making it on to the statute book are slim. Phil Gramm, chairman of the Senate Banking Committee, recently boasted that "I killed the (Clinton) administration's anti-money-laundering legislation last year"—which would have banned dealings with banks in certain outlawed jurisdictions. He added that reform was "not on my agenda", because America has strong laws already.

Britain, too, has been increasingly active, though its regulators have hitherto lacked the power to discipline offending banks. The FSA will get new powers later this year that will turn it into a criminal prosecuting agency, broaden the definition of money laundering to include the proceeds of all crimes (not just illegal drugs and terrorism), and allow it to write the rules defining what counts as money laundering.

The action is most intense, however, at the multilateral level—which is hardly surprising, for there is a limit to what can be done by a single country acting alone. Money laundering is intrinsically global. Cracking down on domestic banks, if it is not copied by jurisdictions elsewhere, may do little more than make those banks uncompetitive in the global marketplace.

Some of the multilateral moves have come from within the banking industry itself. Last October, 11 of the world's biggest banks, including several embarrassed by past money-laundering revelations, signed up to the so-called "Wolfsberg AML Principles", named after a Swiss town in which they were drawn up. These are a set of basic guidelines to avoid money laundering in private banking. The Basle committee of national bank regulators, which sets common international standards for bank supervision, recently said that it would also draw up agreed procedures for banks to use when deciding whether to accept a customer, and to help them in monitoring the activity taking place in their accounts.

The greatest progress, however, has been made by the OECD's Financial Action Task Force (FATF), which was established in 1989. Last July, it published a blacklist of 15 jurisdictions, ranging from Russia and

Israel to the Marshall Islands, that are “non-co-operative” with its anti-money-laundering efforts. These efforts are based on 40 recommendations, which are in the process of being updated to take into account the growing involvement in money laundering of lawyers, securities firms, accountants and real-estate agents.

The British parliamentary report in March echoed the FATF when it expressed concern at “the under-reporting of suspicious transactions by certain professional groups, in particular lawyers and accountants”, who are “often prime targets for money launderers”. Of 14,129 suspicious transactions reported in 1998, a mere 0.7% came from accountants. Of the country’s 12,500 solicitors, only 57 submitted a report.

The FATF is now mulling over how to punish the countries on its list, whether to add new countries to it, and, more happily, whether to remove from it those that have done what the FATF asked of them. Its decisions will be made in June. The group’s actions have, however, already had a striking impact. Since the blacklist appeared last July, the number of filings (by banks operating in America) of suspicious activity reports (SARs)—ie, a significant money transfer whose legality the bank is unsure about—relating to the 15 jurisdictions have doubled. At the same time, many of the blacklisted jurisdictions have fallen over themselves to do whatever might get them delisted. Only four countries have made no serious attempt at co-operation: Lebanon, the Philippines, Nauru and, by far the most significant, Russia. Although an anti-money-laundering bill has been tabled in the Russian parliament, it is not clear that it amounts to much.

The Cayman Islands, which proclaims itself a serious financial centre increasingly used for institutional rather than private banking, is lobbying furiously to be removed from the list. It has introduced strong anti-money-laundering laws, and is now trying to convince a somewhat sceptical FATF that it is serious about implementing them. David Ballantyne, the Caymans’ tough-talking Scottish attorney-general, recently submitted a detailed plan to the FATF of how this would be done. His emphasis is on prosecuting offenders: it is now possible to go to jail for up to 14 years for money-laundering offences on the Cayman Islands.

Know your customer

There remain many obstacles to cracking down still further on money laundering. The first may be President George Bush. His administration seems more sceptical than its predecessor about the value of participating in multilateral initiatives. It remains to be seen whether this change of tone will lead to a real difference in approach, however. Second, there is the sheer difficulty of detecting money laundering. An official report in 1995 observed that looking for evidence of money laundering is not merely like looking for a needle in a haystack, but rather for “a needle in a needlestack”.

Increasingly, regulators think that merely reacting to their requests is not enough. They want banks to play a proactive role in rooting out money laundering—which, say some critics, could “turn banks into cops”. At the heart of this is an innocuous-sounding regulatory requirement to “know your customer”. This means finding out who it is that wants an account before they open it, where the money has come from, and what happens to it afterwards.

One obvious problem is that customers may not wish to be known in such a close fashion by their bank. In America, there is typically a political outcry whenever know-your-customer legislation is proposed, on the ground that it is a breach of privacy. Public opposition led to the withdrawal of such legislation in 1999. However, much of the thrust of the proposed laws was achieved anyway—through guidelines issued by the regulators last year.

Outside America, for instance in Switzerland, the need for privacy in banking is often seen as even more essential—though it is a sign of changing attitudes that last year Austria decided to scrap its anonymous bank passbooks so as to avoid suspension from the FATF. Where the line between fighting crime and protecting customers’ privacy should be drawn is likely to be much debated over the next few years.

The cost of searching for money launderers also imposes a limit on what can be done. Some staff are putting in so many extra hours at banks affected by recent scandals, trying to get to know their customers better, that they are getting to know their families less. Even trickier, the concerns raised about correspondent banking have created a new, and more elusive goal: to know your customers’ customers.

At the same time, technological developments may be making it harder for banks to know their customers, even if they try. Regulators are increasingly worried about the potential of anonymous electronic cash. So far, there is not much evidence that crooks are exploiting it. But, according to one New York bank regulator, there is growing concern about a Mondex smart card in use in Europe which allows money to be transferred without leaving an electronic trail.

Looming largest of all is the lack of a consensus, even among the world's richest, most powerful countries about what, for the purposes of fighting money laundering, should count as a crime. It may now be relatively easy to get such countries as Switzerland or even the Cayman Islands to co-operate in tracking down revenues from the illegal drugs trade or terrorism. But they may prove less helpful if the target is revenue from, say, Internet gambling—a big bugbear of the Senate report. And with some justification. Who are, say, the Americans to decide that an online bet took place in America, where it is illegal, just because the gambler used a computer in, say, Salt Lake City, when the company and the server taking the bet may be in a country where the gamble is legal? Should those countries be obliged to go along with America's claim that any revenue generated by Internet gambling is a fruit of crime?

This question is even more acute when it comes to tax evasion or avoiding government-imposed controls on capital movements, the two main reasons people have traditionally used offshore centres. Should taxes evaded be treated by banks as the equivalent of profits from crime? Some critics reckon that the hidden agenda behind the attack on money laundering is for big countries to make it much harder for their citizens to evade taxes by cutting off those offshore centres that offer low taxes from the international payment system.

As the banks increasingly become an arm of law enforcement, nobody should forget that much of the money flowing out of badly run countries may be genuine flight capital, not stolen cash. History counsels against too rigid a commitment to enforcing other countries' definitions of crime. Those Jews able to get their money out of Germany during the 1930s broke the capital controls that were then in place. It would be sad if future victims of oppression were prevented from getting at their money by a wall of bankers-turned-sleuths.

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Can't get started

Apr 12th 2001 | TOKYO
From The Economist print edition

Yet another emergency package disappoints in Japan

FOR months the rift between the reformist minority and conservative mainstream in Japan's ruling Liberal Democratic Party (LDP) had been widening. When it came to drawing up a set of emergency measures to revive the sickly economy, the two sides almost came to blows. On April 4th Hakuo Yanagisawa, the reform-minded minister of financial affairs, faced off with Shizuka Kamei, the party's policy chief, who is a die-hard interventionist. Disagreements over the detail and timing of some proposals delayed the package's announcement for two days. What was unveiled was still underwhelming. The stockmarket slid again.

The package had once promised more. It was not, people said, going to rely on big-spending programmes, beloved by Mr Kamei and his cronies, to jump-start the economy. Under Mr Yanagisawa's influence, it set out to promote structural reform. In the end, the two main proposals were watered down, with other crucial details lacking.

The first proposal aims to strengthen Japan's fragile banks, which have ¥70 trillion ($560 billion) or so of problem loans on their books. To speed the process up, new measures have set deadlines for banks to write off non-performing loans. Banks are to be urged to write off some ¥13 trillion of existing loans to borrowers classified as "in danger of bankruptcy" within two years.

The plan fails to respond to the true scale of the banks' problems, warns Moody's, a rating agency. It ignores masses of other troubled loans that are better rated by the banks, but are, in reality, just as wobbly. Had this new scheme been implemented in March 2000, then banks would not have had to write off loans to Sogo, a giant retailer that went bust shortly afterwards. Moody's predicts that banks' potential losses from such problem loans could exceed ¥20 trillion.

The package is also vague about how the government will cope with unemployment and the need for retraining that would come with widespread bankruptcies in businesses the banks are now propping up, notably in retailing and construction. It thus raises doubts about whether the government is serious about structural reform at all.

The government's second proposal is to set up a share-buying fund to help shrink the banks' loss-ridden equity portfolios. The new vehicle is designed to buy shares from the banks at their market value and eventually to sell them publicly in the form of mutual funds. Who will run the entity, or pay for its purchases, has yet to be decided.

The move is meant, in part, to help banks unwind the large cross-shareholdings that they hold in their corporate chums. That could help to shake up a lot of industries that have until now been shielded from hostile bids. Reducing the banks' equity holdings would also make them less vulnerable to stockmarket gyrations. Banks own some ¥43 trillion of shares, equivalent to nearly one-and-a-half times their capital. The government plans to limit this in future.

But why does the government need to set up a fund to help the banks do this? One argument is that large share sales by the banks would make the stockmarket stagger. The prospect of sales was blamed

last month for sending the benchmark Nikkei 225 index to its lowest in 16 years.

Kathy Matsui of Goldman Sachs takes a different view. It is the low returns on equity, she argues, that are to blame for the stockmarket's weakness. Even if the new fund boosted share prices, gains would be short-lived without the better profitability that would follow restructuring and deregulation. In the meantime, there is a danger that government intervention could dent faith in the stockmarket's role of pricing capital. The government could drive investors away, especially foreigners.

Mr Kamei seems intent on providing a short-term fix for the banks, all the same—especially since his party faces upper-house elections in July. What is more, starting in September most banks will have to subtract equity losses from their capital bases. Even if the stockmarket stays where it is, this will dent banks' capital—and the market could fall further. Mr Kamei wants to help by having the fund approved and set up by then.

Mr Yanagisawa, who has repeatedly argued against old-style quick fixes, refuses to promise this. That is understandable. Helping them to close their books in September would not deal with the banks' basic challenges: how to write off bad loans and where to get the money to do it. If the banks need public funds to help them clean house (and Mr Yanagisawa's claims that they do not are disingenuous), the government should provide them directly—with harsh conditions attached—rather than give them an indirect, pain-free, bailout.

Mr Yanagisawa has won a small victory, if you count beating back some of the more blatant bailout schemes. But can he hold on to his job? The LDP and the government now face a vacuum after Yoshiro Mori, the prime minister, announced his resignation on April 6th. A new leader will not be chosen until April 24th. The uncertainty continues.

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European interest rates

Standing firm

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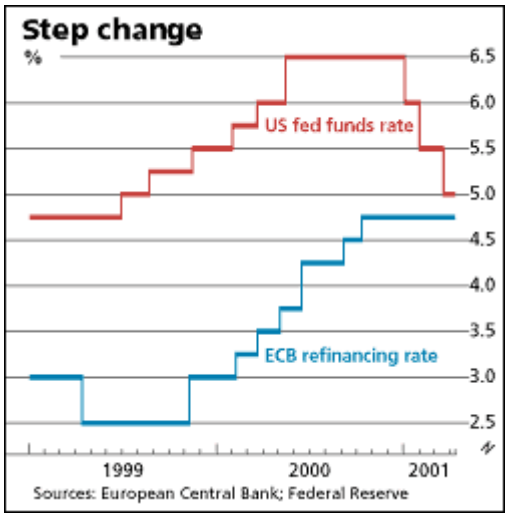
From The Economist print edition

"WAIT and see" continues to be the message from the European Central Bank. Contrary to expectations, the bank held interest rates unchanged at 4.75% on April 11th. It is the only big central bank that has not cut interest rates this year. It is thereby ignoring the advice of the IMF, the OECD and most private-sector economists who fret that the bank is being too eager to fight inflation when much of the world appears close to recession.

The reason why the ECB decided not to cut rates is that the headline rate of consumer-price inflation in the euro area, at 2.6% in February, is still well above the 2% ceiling of the bank's inflation target. Core inflation (excluding energy and food) is only 1.7%, but it has been rising. Now the latest evidence suggests that inflationary pressures are easing. Most economists expect the headline inflation rate to drop below 2% by the summer, which should open the door to lower interest rates to support growth.



The ECB's refusal to cut interest rates was odd, since the economies of the euro area are not immune to the sharp slowdown in America. Yet the bank's critics have tended to exaggerate the urgency of the case for rate cuts. Recent data from Germany, whose economy is most exposed to an American slowdown, have been dour enough. German manufacturing orders have fallen sharply this year, and unemployment has increased for three successive months. This week Germany's six leading economics institutes cut their growth forecast for this year, to 2.1%.

But they still expect the euro area as a whole—which is what the ECB is supposed to care about—to expand by a respectable 2.6% this year, down from 3.4% last year. Economists at investment banks expect slightly slower growth. After falling for three years, unemployment in the euro area has stabilised since October (at 8.7%), suggesting growth has already slowed to its presumed long-term potential of just under 2.5%.

Morgan Stanley, an investment bank, says that manufacturing is on the verge of recession, but this accounts for only one-fifth of total euro-area output. Business confidence has fallen sharply, but consumer confidence is holding up better than in America. Not only are Europeans less sensitive to falling share prices; spending will also be buoyed by tax cuts that were planned last year.

Despite this year's forthright easing by the Federal Reserve, interest rates in the euro area are still a quarter-point lower than in America. Several economists still expect the ECB to cut interest rates to 4% by the end of this year. There are many who want this to happen sooner rather than later. They might try to stop bashing the bank.

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Credit-rating agencies

New interests, new conflicts

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In their drive for new revenues, credit-rating agencies are opening themselves up to conflicts of interest

AT THE top of Moody's first-ever published annual report, Clifford Alexander, its chairman, promises that the newly listed credit-rating agency will be one that "aggressively seeks new business opportunities consistent with ethical standards and with our overall business objectives". Mr Alexander and the rest of the management at Moody's, which was part of Dun & Bradstreet until its listing late last year, now have a share price to worry about. Standard & Poor's (S&P), the other rating titan, is not listed, but it is determined not to be left behind. Rating agencies are, as never before, bent on finding new sources of revenue.

Rating agencies are, of course, businesses first and foremost. They also have a powerful, quasi-regulatory role in the world's debt markets. Some pension and mutual funds are restricted from investing in certain bonds that the agencies decide are "sub-investment grade". In America alone, more than a dozen financial regulations depend, for their effectiveness, upon the notion of credit ratings. And in future, the rating agencies' regulatory importance is likely only to increase. A new proposal from the Basle committee on banking supervision says that their ratings can be used as one way to decide the amount of regulatory capital a bank must hold against its loans.

As a result, it is hard for new competitors to make much headway in the ratings business. Supervisors and investors demand a track record of reasonably accurate judgments about credit quality. Although Fitch, a French-owned firm recently pulled together from a number of small rating agencies, has won some market share, Moody's and S&P dominate the market as much as ever. Of the world's companies with ratings, Moody's rates 80% of banks and 78% of corporates, according to a BIS report. Standard & Poor's covers 37% of banks and 66% of companies. Fitch, their closest competitor, rates 27% of banks and 8% of companies.

The way to keep growing, S&P and Moody's believe, is to extend their well-known brands into areas outside the mundane business of rating bond issues. Most companies in America and Britain that want credit ratings have them by now, so the potential for the agencies to expand in their main markets is limited. Already, they have branched out into rating asset-backed securities, commercial paper, bank loans and other financial products.

Perhaps their most daring move has been into the field of risk consulting. In February S&P launched its "Risk Solutions", a new unit that offers, among other things, consulting and off-the-shelf quantitative models that banks use to predict the likelihood of default for the companies to which they lend. Moody's has also been gathering risk-modelling expertise, most recently by linking up with Oliver Wyman, an American financial-services consultancy. Both agencies believe that another of the Basle committee's new proposals, to allow banks to use their internal credit-risk models when allocating regulatory capital, will mean swift growth in this area.

Some people are unhappy about this new push into risk consulting. Inside the agencies, traditional analysts fear that they will be used to sell extra products on the back of the credit-rating brand, but ultimately to its detriment. Both Moody's and S&P insist on the value of subjective, qualitative judgments when they rate a company. By that logic, these people say, the agencies should not sell purely number-crunching models.

Rival risk consultants argue that, because Moody's and S&P wield power over banks in their regulatory capacity as rating agencies, these banks will feel obliged to buy their risk models, regardless of how good they are. Selling risk consulting, says Arturo Estrella, an official at the Federal Reserve who chaired a Basle Committee study group on credit ratings, "could create a conflict of interest, but it is very much in the interest of the rating agencies not to allow even the perception that there is a conflict." Leo O'Neill, S&P's president, acknowledges that the situation will at least need monitoring. "If there is perception of a

conflict of interest," he says, "we will evaluate our organisational structure."

Another new product from Moody's, called "Rating Assessment Service" (RAS), also raises eyebrows. RAS, launched in the autumn of last year, charges a company *euro*75,000 ($67,400) to tell it, in confidence, what its credit rating would be if it undertook a particular course of action, for instance a share buyback or an acquisition. If the company does not like the rating it might get for one proposal, it can, for *euro*25,000 a pop, come back and ask about another. Standard & Poor's offers a similar service, which it calls "Ratings Evaluation Service" (RES). Fitch has decided not to follow suit, says its chief executive, Robin Monro-Davies, smugly. "We looked at doing it and we saw the potential conflicts," he says. "If you guarantee a 'triple-A' [rating] to a company, it becomes more difficult to change your mind afterwards."

Both the big agencies say that when a company does whatever it was planning, they reserve the right to change their minds about its rating—straightaway, if need be. Still, downgrading a company's rating always provokes anger, and the reaction is likely to be shriller if the company has just paid *euro*75,000 or more to insure against surprises. Disputes might arise about what the company said it was actually going to do, and both sides might reach for their lawyers.

Moody's and S&P are sensitive about the issue of whether they are offering rating advice to companies. Offering advice would compromise S&P's independence, says Tony Assender, head of RES. What makes the difference, he says, is that it is the company that thinks up the plans of action, not the agency. Yet in substance, there is little difference. Once a judgment has been delivered, S&P analysts meet the company for a discussion about how the rating was arrived at. The company gets an insight into the agency's thinking, even if it is not packaged as advice.

These new services draw credit-rating agencies closer to the companies they judge. Moody's says that 36% of its revenue is now "relationship-based". On one level, that is no bad thing. Who better than Moody's and S&P, with their long experience of credit rating and their mass of data on corporate defaults, to advise on managing credit risk? The guidance RAS and RES sell is of huge value to companies, and to the investment banks that advise them. Instead of having to guess at a rating and a company's future cost of borrowing, they can now pay for certainty.

When might the agencies overstep the line? The potential for conflicts of interest exists in their core business now: it is companies that pay for their own credit ratings, but investors that use them. To date, the rating agencies have mostly managed that conflict well. In 1996, though, Moody's was the subject of an antitrust investigation by America's Justice Department, which suspected that the agency's practice of issuing "unsolicited" ratings on companies might be a way to force them to pay up for the full service. In the end the department did not bring charges. These days the two big rating agencies are cosying up to companies, not bullying them. That is not much of a reassurance.

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Economics focus

Markets for ideas

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The "new economy" is looking battered, but the questions it has raised over intellectual property have moved to centre stage—and will stay there

Get article background

POPULAR discussion about intellectual-property rights is bedevilled by a recurring confusion. Few people any longer insist that "property is theft", as Proudhon claimed. The centrality of property rights in a well-ordered market economy is so much taken for granted that the idea has seeped below the level of mainstream consciousness. So when owners of intellectual property say they are being robbed—as the record companies said they were, by Napster, or as big pharmaceutical companies say they are, by producers of cheap drugs in poor countries—one's instinct is to see things their way. Property comes in many forms, one supposes, but whatever form it takes, stealing it must be wrong.

Not so fast. The urge to possess may be a basic human instinct, but the legal idea of property—and what, precisely, this complicated notion entails—is a human invention, developed down the years (and still being revised) to serve economic and social goals. The law on intellectual property, in particular, is everywhere both comparatively new and in flux. This is not a question of black and white, of right or wrong, as rich-country owners of intellectual property insist. It is a matter of striking a balance—and it is possible that owners are getting too much of a good deal.

The economics turns on the biggest single difference between intellectual property and tangible property. Tangible property is "rivalrous in consumption"—if Tom eats this sandwich, Dick cannot. However you assign the property right, only one sandwich, at most, is going to be eaten. Intellectual property, in contrast, is non-rivalrous. If Tom listens to this song, there is no reason why Dick, Harry and a million others should not listen to it as well—in effect at zero additional cost, given modern technologies of duplication and distribution. In this case, if assigning property rights excludes some would-be consumers, the result is waste. Wants go unsatisfied that could have been satisfied at no cost. Economics abhors waste.

In a static economy, with fixed outputs, there would still be good reasons for defining and enforcing strong rights in tangible property. One is that the alternative would be a war of all against all. Another, if you need another, is that property rights make it possible for the economy to allocate scarce resources (scarce because they are rivalrous in consumption) to their highest-value uses. But if the economy were static, there would be no such justification for rights in intellectual property. There would be no need to ration ideas by price, since they already exist and cost nothing to replicate. There would be no need to worry about allocating them to their best uses, because the economy can reproduce them at no cost, without limit, for any use, however small its value.

In praise of Napster

Unlike the case for rights in tangible property, the case for rights in intellectual property therefore rests on the fact that the economy is not static. In the real, dynamic, world, producers of ideas respond to incentives: if they are granted no rights in their creations, they will create less, or not at all. On the other hand, the stronger their rights, and the greater their incentive to create, the bigger will be the static waste due to denying would-be consumers copies that can be produced at no cost. Far more than for tangible property, deciding how strong to make rights in intellectual property involves balancing conflicting aims. The answer will differ from instance to instance.

The higher the costs of creating new intellectual property, the more important the incentive effects of strong property rights: without them, the initial outlay could not be recovered. If the world wants new drugs, or new big-budget movies, it will need to protect the creators' rights. When it comes to pop music,

Napster's domain, the issue is less clear. The costs of creating music are low (if you exclude marketing and fees to performers and composers, by-products of the existing property-rights regime). Stars could still expect to get rich even if their music were free on the Internet: there are other ways of cashing in, including live performance (which is rivalrous in consumption). The Napster model was breaking the law, it seems; on a balance of economic arguments, it was probably serving the public interest.

An unwarranted presumption that intellectual-property rights should, as a matter of natural justice, be as strong as possible also leads people astray in thinking about trade and development. Through the WTO, stronger norms of international protection of intellectual property are emerging. In the first instance, the effect will be a large transfer of resources from net users of ideas (often in poor countries) to net developers of ideas (eg, America).

Stronger protection of intellectual property in poor countries will, admittedly, create better incentives for local development of new ideas. The more thoroughly the poor countries reform their economies to make them receptive to this opportunity, the bigger the long-term gains. The evidence also suggests that inflows of foreign direct investment may rise when intellectual-property rights are strengthened. In the meantime, however, governments of poor countries are being asked to co-operate in a redistribution of global income that will cost them hundreds of millions of dollars.

The economic case for their complying with this is mixed, at best; the moralistic argument that says "property is property, and that's that" is simply false—witness the great variations even among rich countries in the form and extent of intellectual-property protection. Poor countries have every reason to question the terms of this particular trade-policy bargain.

An excellent new guide to these issues, which takes a more sanguine view of the developing countries' position, was published recently by the Institute for International Economics: "Intellectual Property Rights in the Global Economy", by Keith Maskus.

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Foreign exchange

The long, dark shadow of Herstatt

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A new financial institution, meant to be up and running in October, is designed to reduce the risk of a crisis in foreign-exchange payments

LATER this year, the way that the world's main currencies are traded will change. Optimists claim that the result will be to reduce risk and make the world a safer place. Pessimists say it will merely push risk elsewhere. Either way, the change is radical: a multilateral payment and settlement agency for currency deals among the 60-odd commercial and investment banks that are the most active traders in the $1.5 trillion-a-day foreign-exchange market.

The creators of the new agency (to be known as CLS Bank) have been haunted by a 27-year-old ghost. In 1974 a small bank in Germany, Bankhaus Herstatt, was closed in the middle of the day by regulators. The bank was insolvent and it left the dollars that it owed on its foreign-exchange deals unpaid. There was a panic as banks rushed to freeze their outgoing payments, and the market ground to a halt. Even today, banks continue to bear the risk—known as "Herstatt risk"—that, because of different time-zones, they will not receive dollars in New York for the yen that they paid out in the morning, or the euros that they paid out in the afternoon.

As the volume of foreign exchange traded each day soared into the trillions in the 1990s, central banks grew ever more worried that Herstatt risk was still around, and on an even bigger scale. The foreign-exchange market is largely unregulated. There are, for example, no regulatory capital constraints on the volume of foreign exchange that a bank may trade. In 1996, regulators warned banks that if they did not find their own way of reducing Herstatt risk, a capital charge would follow.

So a group of banks calling themselves the G20 dreamed up a "continuous linked settlement" (CLS) institution, an intermediary that would track forex payments due to member banks each day, receive funds on their behalf, and make the exchange of currencies instantaneous, eliminating Herstatt risk. It sounded simple enough; but as the G20 got deeper into the project, they saw that it would mean a sea-change in the way that banks make payments and manage liquidity, and even in the way that central banks manage their domestic currencies.

Since then, the problems and expense of reinventing foreign-exchange settlement have often seemed greater than the putative benefits. The cost of setting up CLS Bank, once put at $60m, has climbed to over $300m at the last count. And that excludes the upheaval to the banks' own payment systems. Progress has been far from smooth. Last year the management of the CLS project was replaced.

Still, the bones of the bank are now in place. It is to be based in New York, with its chief servicing offshoot in London, the biggest foreign-exchange trading centre. The bank is to start and end each day without holding a penny of other banks' money. Around 30 institutions are expected to be ready to deal in seven currencies if CLS Bank goes live in October, as planned.

It is supposed to work as follows. At midnight Central European time (CET) each day, CLS Bank will issue a payment schedule telling each "settlement member" bank how much, and in what currencies, it needs for payments during the day. Settlements will begin in strict rotation at 7am CET and continue until 9am CET. No payment will be made unless the payment from the counterparty to the trade is also ready. The payments are delayed until both sides are in place.

This ought to mean that each party's principal (often hundreds of millions of dollars) can never be lost—and Herstatt risk is no more. If the desired currency is unavailable for payment, CLS Bank will lend it against collateral in another currency. Once the settlement process is over, banks can (over the next three hours) take their funds out of CLS Bank and put them to other uses. Unless there are glitches, the daily process should be over by noon CET.

That is the theory. Yet banks have not historically stuck to daily payment schedules: they like to hang on to their cash and deliver it as late as possible at the end of the working day. If CLS Bank takes off, perhaps half of banks' daily payments will have to be made by noon CET. They may need intra-day liquidity, probably from central banks. That is fine if it is in a bank's home currency, but not so fine if, for instance, a Japanese bank needs dollars in New York.

To deal with this problem, CLS Bank will provide a service under which banks can make payments on each other's behalf. But if they do that, they run the risk that their swap partner will not deliver—which reintroduces a fresh element of (you guessed it) Herstatt risk. Central banks will also need to co-operate more closely to provide timely liquidity to banks settling with CLS Bank; they will also have to manage the effect of large intra-day demands on their home market.

CLS Bank has its detractors, notably those who believe that the foreign-exchange market should remain a jungle in which only the fittest survive. It should not be genetically modified, these critics say. After all, prices are more transparent and dealing spreads lower than, say, for bonds or equities.

There are also those in the wings with another product to flog: a foreign-exchange derivative which, because it is a bet settled for cash, also reduces Herstatt risk. This "contract for difference" is a popular way to gamble in the British retail market, because the proceeds are not taxed. For years, some bankers have wanted to see a similar product traded wholesale by banks. They think such contracts could be a cheap insurance policy should the CLS Bank project fail.

But will it? Central banks want to be sure that any such bank can guard against any possibility of a systemic failure before they give it the nod. Otherwise, they will just substitute one nightmare for another.

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A Tiger economy

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HOW much is Tiger Woods worth—not just to himself, but to the world economy? The golfer, who this week became the first man ever to hold the four biggest tournament titles at the same time, has yet to top the lists of America's wealthiest individuals. In terms of economic might, as on the golf course, Mr Woods is hard to beat just now.

AP

Master of all he surveys

A few years ago, economists and other pundits asked how much economic activity Michael Jordan, now retired, was responsible for generating. Jerry Hausman of MIT and Gregory Leonard of Cambridge Economics, a consultancy, calculated that the superstar brought the National Basketball Association at least $50m in revenues each season. *Fortune* magazine added sales of products that bore Mr Jordan's name or endorsement and produced a minimum of $10 billion for his career.

Will Mr Woods match Mr Jordan's influence? At present, he earns more than $50m a year by endorsing products for Nike, American Express, Buick—and now Walt Disney. That is more than twice the total prize money that he has won as golf's highest-ever earner.

Measuring how much GDP his endorsements have created is harder—and more intriguing. Nike brought in roughly $40m-worth of revenues from golf products in 1995, the year before Mr Woods agreed to endorse its line, for $40m over five years. By 1998, when the business became a separate division, revenues had reached $200m. Last year Mr Woods signed a new, five-year deal worth $100m; in the same year Nike Golf pocketed $300m in revenues.

Mr Woods's biggest impact is on television. Last week, according to Nielsen Media Research, 18.7m Americans watched the final round of the Masters—a one-third increase over last year, and a level only bested by Mr Woods's 1997 win. Ratings translate into dollars from advertisers, says Mr Hausman, because the marginal viewers are often young, college-educated, affluent men who watch little television besides sport.

The Professional Golfers' Association is now negotiating a new television contract that may be worth $800m, $75m a year more than its last contract. It is hard to say whether Mr Woods's growing fame is responsible for all of that change, but Mr Leonard contends that no other golfer has transcended the sport to the extent he has—so that he is now a powerful draw on his own. Still, his chances of eclipsing Mr Jordan were set back this week: rumours are swirling that His Airness is ready take to the skies again.

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Foreign-exchange trading

Enter the little guy

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COULD online foreign-exchange trading have saved Turkey's citizens from the brunt of the country's financial collapse late last year? Richard Olsen thinks so. His company, the Olsen Group, last month launched a trading platform aimed at small investors in need of currency hedges. Daily volume has already reached millions of dollars, he says, with trades being placed from Alaska to Yemen. The new exchange's honeymoon might not last long, however.

The Olsen Group's platform, called FXTrade, is not the first attempt to bypass the banks that dominate the currency markets. Nevertheless, it offers investors some novel features. They can buy and sell all the most popular currencies in amounts as low as $1, with no minimum deposit and with leverage of up to 20-to-1 there for the asking. Traders can (for a fee) also use their accounts to pay for goods and services anywhere in the world, doing away with the need for accounts with the big banks. What is more, Mr Olsen provides tighter spreads than the broader markets—as low as 0.02% of a currency's value. He still makes money, he says, because his computers are so efficient.

That said, FXTrade probably would not have saved Turkey. You can only open an FXTrade account with dollars. Once you get rid of your lira, though, the battle is already won—with or without Mr Olsen's help. Starting a new exchange does not give a country's population any prescience about market movements. Anyway, Mr Olsen does not trade in lira yet.

FXTrade's real usefulness lies elsewhere. Legions of investors badly need to hedge currency risks but cannot put up the capital needed to play in the big markets. These include small import/export businesses, people who work outside their home countries and companies that rely on foreign suppliers. With only an Internet connection, any of them can now start trading.

Given its narrow spreads, you might think that FXTrade would spark interest even among the heavyweight traders. That is unlikely. They care more about what Jim Turley, head of European foreign exchange at Deutsche Bank, calls the "hassle factor". He doubts that the big banks will pay attention unless FXTrade's software, which is meant to work with online businesses, can fit neatly into the banks' own confirmation and settlement apparatus. Moreover, FXTrade's computers, which can easily cope with 100 trades a second, might not be so effective at handling a much bigger chunk of the $1.5 trillion-a-day market.

For the moment, FXTrade's small size means that it cannot be entirely autonomous. The amounts of a given currency that are bought and sold on its exchange each day do not always balance, so the Olsen Group must clear some of the transactions on the broader market. Without the right countermeasures, FXTrade's small size would also leave it open to manipulation: unscrupulous investors could fix rates and then force the Olsen Group to clear transactions at a disadvantage. To prevent manipulation, FXTrade's rates are pegged in part to the broader markets. A cursory glance this week revealed discrepancies ranging from 0.01% to 0.06% between FXTrade's rates and global spot rates. That is not enough for speculators to stiff Mr Olsen, but an exceptionally volatile day on the market could leave his correcting mechanisms struggling to catch up.

The one bugaboo that FXTrade has yet to conquer is tax liability. IG Index, a British bookmaker that offers bets on financial markets as well as on sporting events, claims to have solved that problem. The company makes its money from a different kind of spread—in this case, the amount that a given index or currency must rise or fall before a bet on its value is "in the money". Punters can place bets as small as £1 ($1.43) for every hundredth of a yen gain by the dollar. IG Index claims to pay all betting duties, but the burden of tax is the same—customers just pay their share through wider spreads. Still, IG Index's system has one true, if unadvertised, benefit: it's a lot easier to explain to your mates down the pub.

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Our quarterly portfolio poll

Apr 12th 2001
From The Economist print edition

DESPITE three half-point cuts in interest rates by the Federal Reserve in as many months, there has been no stampede into equities. Too little, too late is the general verdict by the investment managers surveyed in our quarterly portfolio poll. Only Lehman Brothers and Daiwa greatly raised their equity allocations in the past quarter, while Credit Suisse and Commerzbank slightly reduced them. Still, all our moneymen remain overweight in shares, with Robeco overweighting shares and bonds through a negative cash position—essentially by going overdrawn.

1st quarter 2001

▼▲ A change of 5% points or more on last quarter ▼▲ A change of less than 5% points on last quarter

	Holdings by instrument, %			Equity holdings by area, %								Bond holdings by currency, %				
	Equities	Bonds	Cash	United States	Other Americas	Britain	Germany	France	Other Europe	Japan	Other Asia	Dollar	Yen	Sterling	Euro	Others
Robeco Group	53 ▲	50	-3† ▼	52 ▼	2 ▼	10	4	5 ▼	14	9 ▲	4 ▲	33	14 ▼	4 ▼	47 ▲	2
Julius Baer PB	54	41 ▲	5‡ ▼	64 ▲	0	4	5	3	11	8 ▼	5	78 ▲	0	0	14 ▼	8
Commerz Int. CM	52 ▼	48 ▲	0	54 ▲	2 ▲	10 ▲	7 ▲	5 ▲	10 ▼	10 ▼	2	35 ▲	26 ▼	5 ▲	34 ▼	0 ▼
Credit Suisse PB	41 ▼	45	14§ ▲	51	0	9	7	5	9	14	5	88	0	0	12	0
Lehman Brothers	70 ▲	30 ▼	0 ▼	47 ▲	1 ▼	9 ▼	4 ▼	5 ▼	15 ▲	13 ▲	5 ▲	50 ▲	13 ▲	4 ▼	30 ▼	2 ▼
Standard Life	60	40	0	52	1	11	5	6	13	10	2	29 ▲	25	4	42	0 ▼
Daiwa	56 ▲	40 ▼	4 ▼	41 ▲	1 ▼	9	7	7 ▼	14 ▼	18 ▲	3 ▼	39 ▲	17 ▼	5 ▼	33 ▼	6 ▲
Average	55 ▲	42 ▼	3 ▼	52 ▲	1	9	6	5 ▼	12 ▼	12 ▲	4 ▲	50 ▲	14	3	30 ▼	3
Neutral*				51	3 ▲	10	4	5 ▼	14	11	2	27 ▲	26	5	36	6 ▼

*Morgan Stanley Capital International (developed) world equity index; Salomon Brothers world government-bond index †Overdrawn, in order to overweight equities and bonds ‡Of which 3% invested in non-traditional funds §Of which 7% invested in alternative investments

Apart from the rate cuts, there are few obvious signals to inspire confidence in buying shares. Unemployment is rising in America, rekindling suspicions of a recession. Big American companies are issuing profit warnings, and world stockmarkets have mostly followed American ones down. Given the gloom, our fund managers' take on American equities is fairly upbeat. With the exception of Robeco, they all increased their American holdings, or left them unchanged. Britain remains the most popular country in Europe for equity investment, while the rest of Europe has fallen a little out of favour.

In times of stockmarket turmoil, bonds can seem like a safe haven—at least if there is little sign of inflation. Dollar-bond holdings have increased in almost all model portfolios. Lehman took the boldest step, shedding euro-denominated bonds for the sake of dollar bonds. The Swiss pair, Julius Baer and Credit Suisse, have stuck largely to dollar bonds, skipping sterling and yen bonds altogether.

The American economy may be slowing, but the dollar rides high. And although European economies are in relatively good shape, holdings of euro-denominated bonds continue to wane. Robeco is alone in going for a slight increase in euro bonds. Yet, with the troubles in the American economy intensifying, could the continent's bonds now make a comeback?

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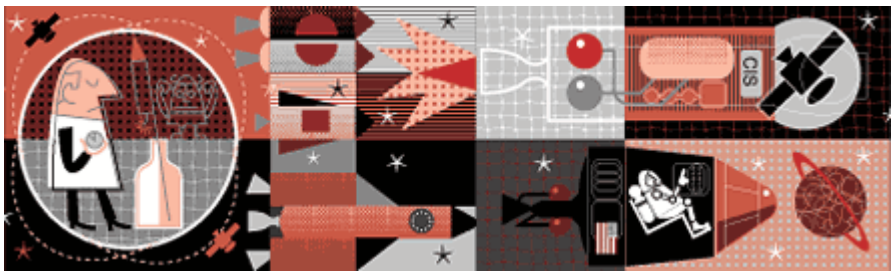
Runners-up in the space race

Apr 12th 2001
From The Economist print edition



The global space club grows by the day. How do the aims and achievements of the world's lesser space-faring nations compare?

FORTY years ago this week, the first man to enter space and orbit the planet landed back on earth in a soft ploughed field outside a Russian village. For the Soviet Union, Yuri Gagarin's trip on April 12th 1961 was a victory over the Americans. It was also the high point of their space programme, which began spectacularly in the late 1950s with the launch of the first *Sputnik* satellites, and continued after Gagarin's flight with the first spacewalk, the first missions to the moon, the first space station, the first Venus landing and numerous space endurance records.

Despite all these achievements, the *Apollo* missions meant that America quickly captured the lead in spaceflight. In recent years, Russia's cash-starved space programme has been in sharp decline. Vladimir Putin, Russia's president, recently declared that the country now had nothing to be proud of in space. The ailing *Mir* space station was finally ditched into the Pacific last month. Russia is very much a junior partner in the International Space Station.

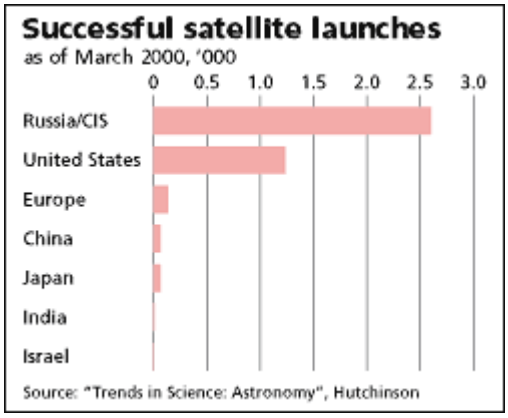
The exploration and exploitation of space is, however, more than just a two-horse race between Russia and America. Europe, Japan, India and China all have space programmes, and several other countries are bringing up the rear. Their accomplishments and motives vary widely. The Indian and Chinese space programmes, like those of Russia and America four decades ago, are by-products of missile development that are meant to show off their technological prowess. Europe's space programme is driven by commercial rather than military ambitions. Japan's is somewhere in between.

Consider India, which launched its first test rocket as long ago as 1963. It took its first step as a commercial satellite launcher in 1999, putting South Korean and German satellites into orbit from Sriharikota in the Bay of Bengal. The Indian Polar Satellite Launch Vehicle, a home-grown rocket, can send a 1.2 tonne payload into a low-earth polar orbit. But India's commercial hopes now rest on the more ambitious Geosynchronous Satellite Launch Vehicle (GSLV), designed to put communications and broadcasting satellites into a 24-hour orbit, so that they appear fixed in the sky. GSLV's first launch was dramatically aborted last month. One second before the countdown ended, computers detected that the vehicle had not developed enough thrust, and its foam insulation pads then caught fire. The Indian Space Research Organisation (ISRO) has rescheduled the launch for later this month. Its success would enable India to join the few countries that can launch lucrative, heavyweight, satellites deep into space. Developing the technology to do it all has taken a decade and cost 14 billion rupees ($300m).

Developing its own rockets has boosted India's technological reputation, and there is even talk of its sending an unmanned mission to the moon. This would be a public-relations coup, but the scheme has drawn heavy criticism for its lack of relevance to a programme focused largely on communications, weather and mapping satellites.

China's ambitions are no less lofty. It is arguably the country with the longest history of space research, having begun work on rockets at least 800 years ago. Its space programme kicked off in

1970 with the launch of a satellite on a home-made rocket. The Long March family of Chinese rockets is now capable of launching anything from small experimental satellites to large telecommunications satellites and manned spacecraft—although China has yet to send its first astronauts (or taikonauts, as they are known) into space. Earlier this year, the state media announced that "various life forms" had made a journey into space. It has since emerged that the *Shenzou 2* capsule carried a monkey, a dog, a rabbit and some snails into space. China has said it will carry out its first manned mission before the decade is out, but it is widely expected to be much sooner. After that, the Chinese programme will turn its attention towards the moon and Mars.



What a waste of space

While India and China have been moving forward, the Japanese have lost ground. Last year, Japan began a complete reorganisation of its space programme, after six failed launches in as many years. Among other things, the failures caused the loss of a multi-billion yen astronomical satellite and, more ominously, of launch contracts from Hughes Space and Communications, an American satellite maker. Many people are now asking whether Japan should continue with its costly and commercially uncompetitive rocket programme.

Japan's first rocket, launched in 1955, led to the creation of the Institute of Space and Astronautical Science (ISAS) to pursue scientific research in space. But in 1969, after the American *Apollo* manned missions, Japan complicated matters by setting up the National Space Development Agency (NASDA) to pursue more prestigious, high-profile projects. These two rival agencies have been squabbling with each other over talent and resources ever since.

Despite much hand-wringing, NASDA has successfully, though expensively, launched 30 rockets. But since 1994 it has produced a string of failures, which were later blamed on design and planning mistakes. Japan has had more success on the scientific front. ISAS has an international reputation in X-ray astronomy and solar science, and in 1998 it launched a Mars probe called *Nozomi* that will search for evidence of water under the planet's surface when it gets there, albeit four years behind schedule, in 2003. There are also plans to send a probe to Mercury, in a venture with the European Space Agency (ESA).

While the space research in many countries has turned swords into ploughshares, Japan has almost done the reverse. If it can ever be made to work, NASDA's spectacularly unsuccessful H-2 rocket could potentially have military uses. Cynics note that with its defence spending constitutionally capped at 1% of GDP, Japan might wish to fund military research through indirect means.

As for Europe, it made a stumbling start into space, setting up two faltering space agencies in the 1960s. It was only relatively late in the game, in 1975, that 11 countries came together to form ESA. Under French leadership, ESA went on to develop the *Ariane* series of rockets. Arianespace—the first commercial space-transport company—was created four years later, after the first *Ariane* had been launched.

Despite its humble beginnings, ESA is now one of the world's leading space agencies, even though it has only a small fraction of the funding of America's space agency, NASA. Those working for ESA, which concentrates on communications technology, earth observation and space science, complain that nobody has ever heard of it, and that many of its achievements have been unfairly eclipsed by NASA missions.

In 1985, for example, ESA's *Giotto* probe to Halley's comet took the first detailed images of a cometary nucleus. ESA also launched the first infra-red space observatory, and it is leading the way in research into solar seismology. A Mars lander, which will look for evidence of life, is planned for 2003. There are also plans for a gravitational-wave observatory, and a joint mission with NASA to Titan, one of the moons of Saturn.

Launching rockets is an expensive business. Most countries have justified their space programmes on the grounds that developing the necessary technology stimulates innovation that then ripples into related industries, such as computing and telecommunications. China's and India's space programmes have

undoubtedly been successful both technologically and in promoting the two countries' growing technical expertise. But other countries with space-faring ambitions, such as Brazil and Malaysia, should note the experiences of Japan and Russia. Spaceflight can provide an all-too-accurate barometer of a nation's fortunes, and its unforgiving nature can serve to illustrate a country's failings just as graphically as its accomplishments.

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Pollution detection

Muddy waters

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From The Economist print edition

FORENSIC science has uses beyond the courtroom, as environmental detectives have discovered. You can even use it on the beach. More than 4,600 American beaches were closed in 1999 because water-quality tests showed the water to be too polluted by fæcal matter to make it safe for swimmers. One problem in such cases is working out where the pollution is coming from. Is it a leaking sewer, or does it come from waste from a pig farm that has been washed downstream? Might the culprits be seagulls on the beach itself? Until recently, determining the source of the pollution relied on little more than guesswork.

In the 1990s came the first tests that used DNA-fingerprinting techniques to distinguish human waste from the non-human variety. Water-quality tests check for the presence of fæcal coliform bacteria, tiny organisms that live in the guts of humans and other warm-blooded animals and help them to digest their food. These bacteria rarely cause disease, but their presence indicates that the water has been contaminated by human or animal fæces. Among the most prolific is *Escherichia coli*, different strains of which are found in different species' guts, and in different parts of the world.

Identifying a particular strain of *E. coli* works like this. First, the bacteria is removed from the water sample and cultured. Its DNA is then extracted and cut up with a restriction enzyme, a set of molecular scissors that chops the DNA into small fragments when it encounters a particular genetic sequence. Since different strains of *E. coli* have different genetic sequences, the resulting mass of chopped-up DNA fragments can be turned into a DNA fingerprint—similar to those seen in countless crime dramas—that uniquely identifies each strain. If a polluted water sample contains a strain of *E. coli* that is not found in humans, you can be pretty sure that sewage is not the source of the pollution.

Pretty sure: but not certain. The problem with these original tests was that they could correctly identify human waste only around two-thirds of the time, because not all strains of *E. coli* associated with humans were known. But in this month's issue of *Applied and Environmental Microbiology*, Andrew Carson of the University of Missouri and his colleagues describe a fingerprinting technique that is far more sensitive. It has allowed them not only to differentiate human from non-human, but also to link *E. coli* to eight animal species, with 85-99% accuracy depending on the species in question.

Dr Carson did this by creating a DNA library of the strains of *E. coli* that live in the guts of people, cattle, pigs, horses, dogs, chickens, turkeys and geese. While it is only a start, this database can establish whether bacterial pollution is the result of leaky or overflowing sewers, agricultural run-off, or even domestic pets—another common source of water pollution.

A similar approach is being taken by Mark Tamplin at the University of Florida, and by Monsour Samadpour of the University of Washington, who has created a DNA library capable of identifying over 140 species with an accuracy of between 45% and 70%. Michael Sadowsky of the University of Minnesota in St Paul has a ten-species library, consisting of 2,400 *E. coli* strains, which identifies wildlife, including beavers and deer, with 78-100% accuracy.

Even if the source of pollution cannot be traced, identifying its type can show how dangerous it is to venture into the water. Whereas water polluted by animal fæces can give people ailments such as "Delhi belly", human waste poses a greater risk since it may transfer nastier human diseases.

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Metabolomics

Array of hope

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FIRST, the genome. Then the proteome. Now, it seems, the “metabolome”. The range of biochemicals that can be analysed systematically will expand yet again if Ronald Breaker, a biologist at Yale, is right. In this month’s *Nature Biotechnology* Dr Breaker and his colleagues describe a chip-based technique that is able to distinguish and identify the molecular maids-of-all-work that support genes and proteins in the task of keeping a cell’s metabolism up and running.

The problem with the metabolome is that it is not chemically homogeneous, in the way that genes (which are composed of DNA) and proteins (which are made up of amino acids) are. It spans the molecular range from metal ions to vitamins, via a host of disparate compounds such as adenosine tri-phosphate (ATP), a molecule that stores energy for a cell’s immediate use. So a general-purpose chemical technique has to be used to identify its components.

At the moment, antibodies are employed to do that. These proteins (which find and destroy alien invaders in the body) can be tweaked to recognise just about any molecule, but they are tedious to use because the samples to be tested require extensive preparation. Instead, Dr Breaker proposes using RNA, DNA’s less glamorous cousin.

The core of Dr Breaker’s detector is a molecular “switch” composed of three pieces. The first is a bit of RNA that is specially tailored to fit hand-in-glove with a particular component of the metabolome, and to bind tightly to it. Unlike DNA, with its double-helical structure in which two strands wind endlessly around one another, RNA has but a single strand. That strand can fold up into myriad shapes, depending on its exact composition. At least one of those shapes is almost bound to fit every component of the metabolome—and that shape can be found by throwing a lot of different RNA at a surface covered with the target molecules, and seeing which ones stick.

The second piece of the switch is an enzyme called a ribozyme, which is also made of RNA and thus links easily to the first piece. The third piece is a radioactive phosphate group. When the tailored RNA captures its target, the ribozyme cuts the chemical bond holding the phosphate group in place. So, by fixing the switch to a surface, flooding it with a solution that may or may not contain the chemical of interest, and then checking to see if the surface is still radioactive when the solution has been washed away, it is possible to find out whether the solution actually contained the target molecule. (If the radioactivity has disappeared, it did.)

Dr Breaker showed that his idea worked with an ATP-detecting switch. He and his colleagues then went on to design switches sensitive to six more bits of the metabolome, from cobalt (a critical component of vitamin B12) to the ubiquitous CAMP, a molecule that does most of the fetching and carrying during protein synthesis. They have also taken the first step towards turning their invention into a “biochip”.

Existing biochips are designed to investigate the genome. They consist of clusters of DNA molecules arrayed on a piece of glass, and are used to probe for particular genes. Dr Breaker’s prototype metabolome chip is an array of his seven sorts of RNA switch deposited on to a gold-coated silicon plate.

By bathing the chip in solutions containing several target molecules, the researchers have been able to confirm that each RNA switch responds reliably to the presence of its own—and, more importantly, only its own—target. Moreover, the array can be used to analyse not only experimental solutions, but also broth that has been used to culture bacteria. The switches are robust enough to find their targets even in the midst of such a complex chemical soup.

That gives RNA switches one big advantage over antibodies. Another is that they are easy to arrange on a surface, whereas antibodies are notoriously difficult. On the other hand, antibody assays are currently about 1,000 to 10,000 times more sensitive than the newly created RNA arrays.

Dr Breaker hopes that this gap will narrow as he refines the design of his switches. He also hopes to scale up his modest seven-switch prototype to a 100- or even 1,000-switch device. If he succeeds, he will open up the cheap and systematic study of the metabolome. If not, then perhaps the whole thing will turn out to have been metabaloney.

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It's a hoot

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WHEN spring is in the air, birdsong is at its peak. But avian musical cadenzas are not designed to bring joy to human hearts. Their function, rather, is to advertise the singer to the opposite sex, and also to keep the competition at bay. To do this, though, requires that listeners can assess individuals accurately from their songs. And this, in turn, means that evolution will tend to favour the development of "unfakeable" signals. The song of a good (ie, healthy) individual should therefore be distinguishable from that of a sick one. But this is an assumption that has rarely been tested.

To rectify this, Stephen Redpath of Britain's Centre for Ecology and Hydrology and his colleagues studied 22 tawny owls in the Kielder Forest in northern England. Their results were published recently in the *Journal of Avian Biology*.

Dr Redpath and his colleagues played hoots recorded from an unfamiliar male and measured the time that their subjects took to respond to the challenge. They found that owls with higher parasite loads in their bloodstreams took longer to hoot back. In owls with no parasites, the response time was about 400 seconds. The most highly parasitised birds took more than twice as long before they bothered to hoot back.

On top of that, when they did hoot, heavily parasitised tawnys gave the game away, because they sounded different. In owls with no parasites, the highest frequency that Dr Redpath recorded was 0.98 kilohertz. In the most highly parasitised birds this dropped to 0.82 kilohertz. That difference is distinct even to human ears. Dr Redpath describes unparasitised owls as sounding "more squeaky" than their sicker competitors. To the owls themselves this is, no doubt, a dead giveaway. There is, it seems, more to an owl's hoot than the merry note Shakespeare identified in "Love's Labour's Lost".

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Pass the baton

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From The Economist print edition

America's oldest and grandest orchestras may be choosing ageing new conductors, but there is a wealth of young talent coming up behind

CASTING about for a new music director in 1957, the New York Philharmonic Orchestra threw caution and tradition to the winds. Instead of a venerable maestro with a European pedigree, they opted for youth and energy, choosing the 39-year-old Leonard Bernstein, who became the first American-born music director the orchestra had ever had. Bernstein's tenure, till 1969, may not have been trouble-free, but it was certainly dynamic, as the Philharmonic took on a more adventurous repertoire and attracted a younger and more vibrant audience.

Latterly, however, caution and tradition seem to have returned. The Philharmonic's protracted quest for a new music director has ended at last with the appointment of Lorin Maazel, a very eminent musician of 71, whose international career stretches back to his debut as a child prodigy in 1939. While his abilities are not in doubt, critics have been quick to see Mr Maazel's selection as the most striking sign of a current tendency among the leading American orchestras to go for safety, rather than the potential challenge and excitement of new blood.

Among the group usually known as America's Big Five, the Philadelphia Orchestra has also recently appointed a new director, Christoph Eschenbach, who at 61 has a proven track record in America and Europe. The Boston Symphony Orchestra has been searching for a replacement for Seiji Ozawa for the last two years and would love to land the 57-year-old James Levine, world renowned for his quarter of a century at the helm of New York's Metropolitan Opera. Daniel Barenboim, 58, ploughs a steady course with the Chicago Symphony Orchestra. Only the Cleveland Orchestra has taken a chance on youth with 40-year-old Franz Welser-Möst. While he may be relatively young, the Austrian maestro is not exactly a firebrand, described by one critic as "good, solid, intelligent but not notably inspiring".

These are troubled times in classical music. With popular culture luring away audiences and record companies cutting back budgets and cancelling contracts, orchestras are uncertain where to pitch their appeal. Should they stick with the traditional repertoire beloved of regular subscribers or risk alienating them with more forward-looking but less accessible works?

This market uncertainty seems to be responsible for the Big Five's bearish stance. But a longer view may ultimately be more fruitful, encouraging the vitality that fresher faces can bring. And indeed some famous ensembles have chosen that path, most notably the Berlin Philharmonic Orchestra, whose members voted to be led not by the reliable Daniel Barenboim but by Sir Simon Rattle, a perennially youthful 46. In his 18 years with the City of Birmingham Symphony Orchestra, Sir Simon completely rejuvenated the musicians with electric performances of unusual repertoire, giving the orchestra a high profile and a broad, varied audience. Despite their status as a great institution, the Berliners decided the same boyish new broom would suit them as well. "In voting for Simon", one said, "we were voting for the future."

The same impulse has appeared in some grand British institutions: next year, 42-year-old Antonio Pappano will become artistic and music director of the Royal Opera House. Born of Italian parents in London but raised in America, Mr Pappano is not the product of conservatoires, but of long practical experience as an accompanist and conductor. He is known for his feeling for singers and keen dramatic sense. The blazing performances of Verdi's "Requiem" earlier this year foreshadowed lively times at Covent Garden.

With its elitist image, opera, in particular, needs the kind of innovative engagement young talent can provide. A classic example occurred last year, in Glyndebourne Touring Opera's new production of that hoary tear-jerker, "La Bohème". The GTO revitalised the piece, thanks in large part to the razor-edged conducting of Louis Langrée, a 40-year-old Frenchman. Glyndebourne, one of the most celebrated of British musical institutions, is obviously committed to the potential of youth: its new Russian music director, Vladimir Jurowski, is just 29.

At first glance, London's highly regarded and highly competitive orchestras might seem to manifest the same conservative tendencies that characterise America's Big Five, with podiums manned by such august figures as Sir Colin Davis, Kurt Masur and Christoph von Dohnanyi. But the Royal Philharmonic Orchestra, for years the poor relation on the orchestral scene, has experienced a remarkable turnaround in quality and reputation due to a dynamic Italian, Daniele Gatti. When Mr Gatti, now 38, became music director in 1996, he realised that the RPO's players "knew they were not the best. But they knew they could be. They were simply looking for someone who could give them courage." The results of what Mr Gatti gave and demanded were palpable in the orchestra's extraordinary Mahler cycle two years ago in which bold interpretative extremes produced thrilling performances.

That sort of daring, and the confidence to communicate it to both ensemble and audience, can be the special gift of a young conductor, and the current musical scene could use such bracing rejuvenation. And despite jeremiads from some quarters about a dearth of young talent, there are plenty of conductors poised to make an impact—not just in their 30s, but in their 20s too. At 25, a highly touted protégé of Sir Simon Rattle's, Daniel Harding, has already conducted the Berlin Philharmonic, among many other European orchestras, and is known for a highly driven sense of concentration. He is also music director of the Deutsche Kammerphilharmonie in Bremen, with which he has recorded an acclaimed set of Beethoven overtures.

But the most precocious figure on the conducting scene is just 21: Mikko Franck, a product of the famous conducting course at Finland's Sibelius Academy taught by a legendary professor, Jorma Panula. All by himself, Mr Panula has peopled the musical world with accomplished young maestros, including Esa-Pekka Salonen in Los Angeles, Jukka-Pekka Saraste in Toronto, Osmo Vanska in Glasgow and Sir Simon Rattle's successor in Birmingham, Sakari Oramo.

Perhaps most encouraging is that among Mr Panula's protégés is a very talented woman, 31-year-old Susanna Malkki, who has concentrated on Thomas Adès and other contemporary composers. She too is making her mark in Birmingham, with the Birmingham Contemporary Music Group, and her views on her career and vocation epitomise the ardour of youth: "It's fantastic being young and doing everything for the first time, even though it's very tough and very hard work. It's like diving into new waters all the time." It is that spirit of plunging into fresh discoveries with enthusiasm which classical music badly needs.

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Literary biography

All too human

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AS IAN CAMPBELL ROSS remarks in his preface, the author of “Tristram Shandy” and “A Sentimental Journey” has been well served by modern biographers. In particular, Arthur H. Cash’s two volumes, “Laurence Sterne: The Early and Middle Years” (1975) and “Laurence Sterne: The Later Years” (1986) must have seemed a dauntingly hard act to follow. Nevertheless, Mr Ross, a lecturer in English literature at Trinity College, Dublin, has done so successfully in this excellent new biography, which is fully the equal of its predecessors in meticulous scholarship.

LAURENCE STERNE: A LIFE
By Ian Campbell Ross

OUP; 512 pages; $35 and £25

Buy it at
Amazon.com
Amazon.co.uk

Sterne studies have, of course, moved on in the last three decades and Mr Ross enlarges our sense of the novelist in several areas. His account of the early reception of “Tristram Shandy” shows how the novel was acclaimed immediately as a brilliant new addition to the Rabelaisian tradition of learned ribaldry, while also appealing to the 18th-century taste for the sentimental and the pathetic. Controversy accompanied celebrity, once it became known that the author was a clergyman. Sterne traded upon both by encouraging identification of himself with his characters, either Tristram or Parson Yorick as his whim and company required; “Shandying it”, in his own phrase.

Recent studies have emphasised how the book trade and authorship itself shared in the increasing commercialisation of 18th-century culture, and Mr Ross shows that Sterne was not behindhand in selling his wares. Not only was he extremely canny in negotiations with publishers and in his choice of dedicatees, he capitalised in every sense upon his success as a novelist by bringing out a selection of his sermons, which here receive more attention than is customary. Feted by London’s fashionable society and by the *philosophes* of Paris, he never neglected an opportunity to enhance the subscription lists for his publications.

Sterne did not achieve fame until his mid-40s, and his early life as a well-born but impecunious rural clergyman, with scant prospect of rising beyond his canonry at York Minster, might seem a challenge to a biographer. Yet this part of Mr Ross’s account has its own fascination, in that the reader can learn about so much besides Sterne’s clerical career. Mr Ross is informative on the 18th-century Anglican church, its politics and doctrine, and the varied lifestyles of its clergy, from fashionable preachers down to half-educated perpetual curates. In addition, one is offered vivid pictures of the social world of the city of York, of electioneering and the accompanying pamphlet wars and of how England reacted to the Jacobite rebellion of 1745.

Mr Ross is rather more severe on Sterne’s private character than was Mr Cash, who offered him as a sincere Christian unable to overcome sexual temptation. Mr Ross is inclined to question Sterne’s temperamental suitability for his vocation, and he is able to show occasions when Sterne’s behaviour was disingenuous or self-deceiving, even morally dishonest. Not that the final judgment is unfair or unkind. Sterne is allowed to have been a conscientious priest, and full justice is done to his personal benevolence and good nature. If an unfaithful husband, Sterne was always concerned for his wife’s physical and material well-being, and his affection for their daughter is beyond dispute.

Mr Ross suggests interestingly that the failure of his marriage was as much a disappointment to Sterne as to his wife, and that his philandering and intense sentimental friendships with other women were the signs of emotional starvation in a man whose life was continually threatened by tuberculosis. If his optimistic theology encouraged hopes for human happiness in this world, Sterne was conscious, like his own Tristram, of running a race against time and death which he was bound to lose. Nietzsche’s “Human, All Too Human”, Mr Ross observes, is a tempting title for a life of Sterne, who, one feels, might not have disagreed.

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Classical studies

Approachable wisdom

Apr 12th 2001
From The Economist print edition

CICERO. Ah, yes. Some of us harbour bad memories of the name. We started at the top of the page, promisingly enough. Find a verb. Good—spotted one. Now look for a subject and an object. Ah, yes, that looks like one; there's the other—perhaps— depending whether it takes dative or accusative? Well, worth a try. "Proceed literally" is the extent of magisterial encouragement. Literally? Here goes. "Now since and authority in me so much should be, how much you with honours conferring to be you wished, and to the doing of faculties so much, how much to vigilant men out of the courts quite daily use of speaking is able to bring"—alas, this is not the end, nor yet the beginning of the end.

CICERO: A TURBULENT LIFE
By Anthony Everitt

To be published in America by Random House in June 2002; $26
John Murray; 366 pages; £22.50.

Buy it at
Amazon.com
Amazon.co.uk
Amazon.co.uk

And would anyone believe that this is a rendering of part of an exemplary passage by the finest shaper of Latin prose, Marcus Tullius Cicero? (For those who care to locate the original, it comes early on in Cicero's speech, "Pro Lege Manilia", delivered in 66 BC.) Masterful correlatives, exquisite anaphora: the poor, uninflected English language cannot hope to do more than strain for an echo of Cicero's sonorous cadences. A few exponents of fine English prose have tried their best to put the particular Ciceronian mix of stateliness and clarity into the vernacular—Edward Gibbon and Thomas Jefferson come to mind—but generally it lies beyond us. And that stretched-out mire of conditionals and subjunctives and ablative absolutes we were made to crawl through—how can we ever forgive its maker?

Anthony Everitt calls his biography of Cicero "an exercise in rehabilitation", and presumably the reputation for long-winded oratory is one aspect of the Roman barrister that needs some corrective treatment. That is, in fact, easily done. For although Cicero was many men in one—not only lawyer but politician, philosopher, rhetorician and connoisseur of art—he was above all a writer: one who relied upon the art and act of writing as both self-advertisement and self-consolation. No matter if we miss the tricks of "tricolon crescendo" and "Asiatic ditrochee". Even in translation, Cicero's letters to his friend Atticus serve as bright windows on to a bright mind. And what Cicero wrote upon such communal matters as growing old, believing in miracles or dealing with grief still reads like approachable wisdom: it has the tang of honesty and experience.

Mr Everitt does not quote much of this output. But implicitly we can tell how Cicero's own trail of essays and correspondence has nourished this convincing portrait of a life lived 2,000 years ago. Cicero's words enable Mr Everitt to picture the man blasted with sadness after the death of his daughter Tullia. There are some minor inaccuracies of historical detail: the author is a former secretary-general of the Arts Council of Great Britain, not an academic specialist. Having been a political animal, however, he may understand better than professional scholars how Cicero sustained a career in public affairs to his end.

A turbulent life? Quite so: the baying of mob violence is heard throughout, and Cicero's last sentences were curt instructions to his assassin not to make a mess of decapitating him. As he once declared, the business of politics was conducted in the cesspits of Rome, not Plato's perfect state. Cicero's own political ideals remain problematic; we may come away from this book still unclear as to exactly what he wanted of the Roman Republic. But Mr Everitt introduces the man graciously to a new generation, and will endear him anew to all those who never grasped the sense, let alone the beauty, of that multi-clausal prose.

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Be my baby

Apr 12th 2001
From The Economist print edition

A semi-autobiographical novel, which explores the sexual awakening of a beautiful 26-year-old writer in China's liveliest port city has become a runaway bestseller despite (or because of) its banning by the authorities. More than half a million pirated copies of "Shanghai Baby", by Wei Hui (right), have been sold in China, while the first French edition, which was published last month by Philippe Picquier, sold out within a week. Suffused with the restless energy of a rapidly expanding Shanghai, the novel tells the story of Coco, who lives with a gifted though impotent Chinese artist while carrying on an affair with a German businessman with fascist leanings. "Shanghai Baby" has been sold in more than a dozen countries. It will be published in English later this year, in Britain in June and in America in September.

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Africa's judicial system

Not fair, not fair

Apr 12th 2001
From The Economist print edition

BUILDING THE RULE OF LAW: FRANCIS NYALALI AND THE ROAD TO JUDICIAL INDEPENDENCE IN AFRICA
By Jennifer A. Widner

Norton; 454 pages; $29.95 and £24

Buy it at
Amazon.com
Amazon.co.uk

THE British withdrawal from East and Central Africa was characterised by more than one crass mistake and more than one missed opportunity. With hindsight one of the worst errors was for the British to assume, as they did, that independent African civil servants would be as able, honest and dedicated as the former colonial counterparts. The reverse, sadly and for the most part, turned out to be true. Botswana and Zimbabwe are just two countries that have recently been exposed as massively unjust.

Reuters

Truncheons first, then to court

How refreshing then to read of one man who breaks that mould. "Building the Rule of Law" tracks the career of Francis Nyalali, chief justice of Tanzania, from his call to the bar at Lincoln's Inn in 1965 and appointment as a lowly magistrate in Musoma to his 24 years as chief justice which ended last year.

His career is only the thread from which Jennifer Widner hangs a carefully researched and well-documented account of the steady decline of the rule of law in Tanzania and efforts made to reverse it. The implementation of Julius Nyerere's vision of African socialism culminated in what was colloquially referred to as "The Theft of Buildings Act" in the early 1970s and Tanzania's withdrawal from the mainstream of African commerce. The legal profession was just one of many casualties. With nothing to look forward to, most of those with experience left. Hardly surprising that by 1993 there were only 179 practising lawyers in Tanzania and Zanzibar.

With great care, though little grasp of the law's humanity and humour, Ms Widner then documents the long, slow journey back to some semblance of the rule of law and the independence of the judiciary in Tanzania. Courtesy of Mr Nyalali and his judges and magistrates, Tanzania's court systems are functioning again, although often with difficulty. Thanks again to their work, the *mwananchi*—the citizenry—are slowly being enlightened about the availability of the courts as a means of handling conflict, all the way from the personal problems of divorce and inheritance to the more explosive issues of politics and elections, and to do so peacefully.

While predominantly about Tanzania, the study also includes the other common-law jurisdictions of East and Central Africa where the story is much the same. The author wisely makes no sweeping predictions about the future of the law in those countries, though the reader may guess how judicial systems will evolve: tribal-based customary law will slowly disappear—along with Africa's vernacular languages—except for the vestiges of marriage and burial. The rule of law, dependent as it is on a disciplined police force and a steady and incorruptible executive, will struggle on. While the independence of the judiciary will be subject to the whim of dictators, the morale of the courts and ordinary Africans' perception of how effectively courts can be made to work will always benefit from the support of judges such as Mr Nyalali.

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Recent Chinese fiction

Crouching pen, hidden talent

Apr 12th 2001
From The Economist print edition

THE award of the first Nobel prize for literature to a Chinese writer last year brought down a storm of controversy. Few westerners had heard of Gao Xingjian. Was his work really Nobel-worthy? At the time of the award, the only English version of "Soul Mountain", Mr Gao's winning novel (see article "Soul man", December 9th), was published in Australia. Given, too, that the author had lived in France since 1987, how far could he be thought to know or represent present-day China?

The fuss surrounding Mr Gao's Nobel success points to a larger difficulty. A tremendous amount of fiction is currently being produced in mainland China, Taiwan, Hong Kong and by expatriates and exiles. It was surely a mistake in the first place to expect any one writer to reflect this diversity and range. The following selection, though limited to works in English translation, aims to give some taste of the contemporary scene.

Wang Shuo, dubbed "China's Kerouac", has been a best selling author of zeitgeisty hooligan fiction since the late 1980s, breaking with the sense of serious responsibility that has long made modern Chinese fiction unpalatable to western readers. He is famous for his mockery of everything that moves—intellectuals, politicians, the masses, nationalism—all in savvy Beijing slang.

In "Please Don't Call Me Human", originally published in Chinese in 1989, in the aftermath of the Tiananmen massacre, Mr Wang wheels out all his favourite targets for lampooning. The National Mobilisation Committee (MobCom for short), a farcical cross between the Politburo and a disorganised bunch of entrepreneurs, is searching for a martial-arts hero to avenge China's loss of face following defeat at a recent international sports competition. Tang Yuanbao, a slacker pedi-cab driver, is selected for a rigorous training programme in order to "beat the shit" out of the opposition and restore glory to China. Along the way, he's electrocuted, castrated and cuts off his own face—to save China's—before finally winning the gold medal. The China in-jokes fly thick and fast, but the surreal farce carries through to an apocalyptic close.

Written by China's leading magical realist, "The Republic of Wine" is a debauched romp through an invented Chinese province called Liquorland. Special Investigator Ding Gou'er is dispatched from Beijing to investigate rumours that baby boys are being bred to be eaten as delicacies in the metropolis of culinary and alcoholic excess that is Liquorland. Ding loses consciousness in a drinking duel with his prime suspect, Diamond Jin, and the rest of the novel staggers bewilderingly through Ding's hangover. The narrative is interspersed with letters between the author, Mo Yan, and Li Yidou, a doctoral candidate in Liquor Studies, each of Li's letters containing details of Liquorland's bizarre and cannibalistic practices. As the tales grow ever more fantastic—and similar in their chaos to Ding's adventures—the line between fiction and reality is increasingly blurred. Mr Mo's virtuoso prose whips up a frenzied polemic against contemporary Chinese society and politics. He satirises many of the same things as Mr Wang but his superior command of style and plot confirms him as the better novelist.

Like Mr Wang in mainland China, Chang Ta-Chun is a cultural phenomenon in Taiwan, both as a popular TV host and a bestselling writer. His two short novels, "My Kid Sister" and "Wild Child", now translated into English and published in one volume as "Wild Kids", feature members of Taiwan's cynical younger generation. "My Kid Sister" runs through the narrator's adolescence, from the birth of his little sister to her pregnancy at the age of 19. Their family is dysfunctional in a uniquely

PLEASE DON'T CALL ME HUMAN
By Wang Shuo (translated by Howard Goldblatt)

Hyperion; 289 pages; $23.95.
No Exit; £6.99.

Buy it at
Amazon.com
Amazon.co.uk

THE REPUBLIC OF WINE
By Mo Yan (translated by Howard Goldblatt)

Arcade; 364 pages; $26.95 ($13.95 paperback).
Hamish Hamilton; £16.99 (Ã‚Â£5.99 paperback).

Buy it at
Amazon.com
Amazon.co.uk

WILD KIDS: TWO NOVELS ABOUT GROWING UP
By Chang Ta-Chun (translated by Michael Berry)

John Wiley; £14.95.
Columbia University Press; 272 pages; $22.95.

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Taiwanese, East-meets-West way, combining Freudian angst (children and parents) with comic walk-on parts for the bearers of Chinese tradition (grandparents). “Wild Child” is a darker episode, in which 14-year-old Hou Shichun drops out of school and runs away from home. After falling into the Taiwanese underworld, he encounters other confused youngsters: Old Bull, Little Horse and Apricot. Although not unlike Holden Caulfield’s lonesome voice in J.D. Salinger’s “The Catcher in the Rye”, Mr Hou’s narrative is a more brutal depiction of the spiritual vacuum of Taiwanese youth.

“The Deer & the Cauldron” was published before these other translations, but the Hong Kong-based writer Louis Cha (or Jin Yong as he is known to his millions of Chinese fans) deserves mention. His epic historical kung-fu yarns have made him a household name in every Chinese-speaking community; the success of Ang Lee’s Oscar-winning film, “Crouching Tiger, Hidden Dragon”, may help to steer the western reading public towards this most Chinese of literary genres.

“The Deer & the Cauldron” is set in the mid-17th century, some 20 years after the Chinese Ming dynasty has fallen to fearsome Tartar invaders, the Manchus. Pockets of Chinese resistance survive, however, as the secret Triads plot to expel the foreign oppressor. Mr Cha’s hero is Trinket Wei, who, by dint of dirty tricks and friendship with Whiskers Mao, rises to the position of top palace eunuch, best friend to the emperor and triad master. Intrigue and dazzling fights abound, as Trinket wrangles with eunuchs, Manchu warlords and a kung-fu queen mother, crying out with frequent exclamations in the style of Captain Haddock in “Tintin”, “Great balls of sizzling bean curd! Excellent kung-fu!”

New developments in Chinese literature mirror the explosive changes taking place in Chinese society itself and writers work hard to keep pace with market fashions. These four authors are significant figures, but much more writing remains untranslated and unread in the West. Hopefully, 2001 will see English translations of more works that reflect the variety of fiction coming from both within China itself and without.

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A Helen Fielding day

Apr 12th 2001
From The Economist print edition

8st 11 (v.g.), alcohol units 8 (hmm), cigarettes 28 (pre-premiere nerves), calories 750 (ditto), UK book sales for diary 1.75m, US book sales 1.1m (goody goody), minutes spent worrying about Renée Zellweger having to put on weight to play me 279, minutes spent thinking of Colin Firth 354

Reuters

TERRIBLE start to the day: turned up in a short skirt at Lewisham fire station for live action special. First try-out in front of camera for new job with television company. Was supposed to slide down fireman's pole wearing fireman's helmet and interview fireman. Ended up sliding too early, having to climb back up said pole then slide down again fast, which lifted skirt round waist. Was complete disaster, with boss signalling frantically for us to wind it up. Could only say, "And now back to the studio..." Durr. Disgraced in front of millions of viewers who have seen my knickers on TV. Why did I ring everyone and tell them to watch? Why?

Not total disaster, though. "Bridget Jones's Diary" opened here and in the States mid-April. Directed by Shazzer (really Sharon Maguire), co-written by Andrew Davies, who wrote screenplay for BBC adaptation of "Pride and Prejudice", Richard "Four Weddings and a Funeral" Curtis and Helen Fielding. Colin Firth plays Mark Darcy (fawaw!) and Hugh Grant is Daniel Cleaver (hmmm. Must not think about Daniel).

Never thought newspaper column about modern singleton who faces up to twin challenges of male emotional fuckwittage and smarmy smug marrieds would make author suddenly famous. Or rich.

Have made fab new deal with Finnish company, Riot Entertainment, to do text-messaging thingy. Will get to discuss matters of immense importance such as bikini diets and inner poise in SMS (short message service) with like-minded singletons. Might have to do some research as series starts this month. Which reminds me: must ring Jude and Shazzer...

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Helge Ingstad

Apr 12th 2001
From The Economist print edition

Helge Marcus Ingstad, champion of the Vikings, died on March 29th, aged 101

AS ONE voyager to another, Helge Ingstad was always kind about Christopher Columbus. He had done well to reach America, Mr Ingstad said. But of course the place had been discovered by the Vikings some 500 years earlier. Even Columbus's navigation was wobbly. He thought he had reached India, when in fact he had ended up in what are now the Bahamas. Mr Ingstad's hero was Leif Ericson. He spent many years seeking to establish that Ericson was not only a superior sailor to Columbus, but in some ways a more admirable man. Columbus was after riches, preferably gold. Ericson was simply looking for a place where families might settle and thrive, where the pasture was good and there was room for everyone to live in peace. All this, said Mr Ingstad, Leif Ericson found for a time in Vinland. He, rather than Columbus, was thus the first true American.

But did Ericson and Vinland ever exist at all? Long before Mr Ingstad had started on his quest others had sought to find the mythical Vinland, a place frequently mentioned in Viking sagas, some oral, some written. A Viking colony was known to have existed in south-western Greenland in the tenth century. Life was hard for the 4,000 of so people there. It was perfectly plausible that they would have sent expeditions westward in search of more hospitable land. From Greenland to the outlying islands of North America is 600km (375 miles), a voyage the Vikings were equipped to tackle. But where did they land? Some earlier searchers had believed that the *vin* in Vinland referred to wine; and there were references in the sagas to wild grapes. But no possible Viking sites were found in southern areas warm enough to grow grapes.

Mr Ingstad established that *vin* was in fact an ancient word for pasture. On foot and by boat, and occasionally by helicopter, he explored the coasts of Labrador and Newfoundland for traces of possible settlement. In 1960 near a village called L'Anse aux Meadows, in Newfoundland, a fisherman showed him some overgrown remains of turf huts, thought to be of Indian origin. To Mr Ingstad and his wife Anne, an archaeologist, they had an Icelandic look. They started digging.

Eating and working

Teams of archaeologists explored the site for eight years. At first there was scepticism that this was indeed Vinland or even that Vinland had existed. Perhaps the first important discovery, made in 1964, was of a device for spinning thread. It was the first artefact of Viking origin found in America. It suggested that women as well as men lived in the settlement. In 1968 a bronze pin of a type used to fasten a dress turned up. The diggers found remains of butternuts, a type of walnut regarded as a delicacy by the Vikings. Their searchings eventually uncovered the sites of eight houses, four boathouses and a charcoal kiln. Remains in a blacksmith's hearth have been carbon-dated to about 1,000 years ago. The myth had become fact.

The Vikings were among the world's most restless people. They established colonies from the Arctic to the Mediterranean, and possibly in Africa. Anything, it seems, to get away from Norway. Like other Norwegians, Helge Ingstad obviously had loads of this restless spirit. He was born on the last but one day of the 19th century and he said, "I got to do everything." He practised law until he was 26, then decided that there was more to life than working for what Henrik Ibsen called "the damned, compact, liberal majority". He went to Canada and spent several years as an animal trapper. He became interested in the Apache Indians in Arizona and lived with them. He lived too among the Eskimos and made recordings of their traditional songs before they were obscured by pop culture. In his 30s he managed to combine his law training with a bit of adventure by becoming governor of an area of Greenland claimed by Norway. This was a cheeky try-on by Norway. It was soon ended. The Danish police tried to arrest Mr Ingstad.

Greenland is part of Denmark, but with a high degree of home rule.

However, this part of Greenland was the very spot from which Leif Ericson, son of Eric the Red, left for America, and set Mr Ingstad on the trail of Vinland. Ericson himself remains a mystery. Mr Ingstad quotes from the sagas that he had “intelligence, temperance and fairness” but such qualities are expected of a mythical hero. It is reasonable to suppose that he was an excellent sailor, and the Viking boats of the time were the finest in Europe. But it is not known that he actually lived in Vinland. There may have been other Viking settlements still to be found.

In his book “The Norse Discovery of America” Mr Ingstad ponders the question why the inhabitants of Vinland did not stay on in the land of pasture and timber and good hunting. He takes the view that the Vikings did not feel secure. Despite their hopes of peace, their sagas tell of battles with the local indigenous people. Unlike Columbus, who had firearms and reliable contact with Europe, the Vikings had the same weapons as the natives, spears and bows and arrows, and only the slenderest contact with Greenland. “Leif Ericson discovered America too early,” said Mr Ingstad.

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OUTPUT, DEMAND AND JOBS

Apr 12th 2001
From The Economist print edition

America's unemployment edged up in March to 4.3%, its highest level since July 1999. Canada's jobless rate also rose in March. Strong construction activity pushed German industrial output higher in February, but 12-month growth slowed. In the 12 months to February, America's retail sales rose by only 1.5% in volume.

% change at annual rate	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)	Unemployment % rate	
	3 mths†	1 year	2001	2002	3 mths†	1 year	1 year	latest	year ago
Australia	− 2.2	+ 2.1 Q4	+ 2.3	+ 3.9	+ 0.8	+ 3.1 Q4*	− 0.1 Q4	6.9 Feb	6.7
Austria	+ 1.7	+ 2.6 Q4	+ 2.3	+ 2.5	na	+ 9.3 Jan*	− 1.3 Dec	3.7 Feb	3.6
Belgium	+ 4.9	+ 3.1 Q4	+ 2.6	+ 2.7	na	+ 6.7 Jan*	+ 7.1 Jan	10.3 Mar*	10.6
Britain	+ 1.4	+ 2.6 Q4	+ 2.4	+ 2.7	− 2.6	+ 1.0 Feb	+ 5.8 Feb	5.2 Feb‡	5.8
Canada	+ 2.6	+ 4.0 Q4	+ 2.2	+ 3.3	− 1.2	+ 1.2 Jan	+ 3.9 Dec	7.0 Mar	6.8
Denmark	+ 4.9	+ 1.1 Q4	+ 1.9	+ 2.2	na	+ 4.3 Jan	− 0.6 Feb	5.4 Feb	5.3
France	+ 3.9	+ 2.8 Q4	+ 2.6	+ 2.7	+ 2.5	+ 2.9 Jan	+ 0.1 Feb	8.8 Feb	10.2
Germany	+ 0.8	+ 1.9 Q4	+ 2.1	+ 2.6	+ 7.4	+ 4.7 Feb	+ 4.8 Jan	9.3 Mar	10.1
Italy	+ 3.2	+ 2.7 Q4	+ 2.2	+ 2.5	+ 6.8	+ 9.5 Jan	− 1.0 Jan	9.9 Jan	11.2
Japan	+ 3.2	+ 2.8 Q4	+ 0.5	+ 1.3	− 3.6	− 2.1 Feb	+ 1.8 Jan	4.7 Feb	4.9
Netherlands	+ 5.1	+ 3.1 Q4	+ 2.9	+ 3.1	+ 2.5	+ 1.9 Feb	+ 2.5 Jan	2.4 Feb§	2.8
Spain	+ 2.9	+ 3.7 Q4	+ 3.0	+ 3.3	− 1.2	− 3.5 Feb	na	13.7 Feb	15.0
Sweden	+ 2.4	+ 2.6 Q4	+ 2.7	+ 3.0	na	+ 9.4 Jan	+ 4.9 Jan	4.2 Feb*	5.4
Switzerland	+ 1.8	+ 2.5 Q4	+ 2.0	+ 2.2	na	+ 5.0 Q4*	+ 4.9 Jan	1.8 Mar*	2.3
United States	+ 1.1	+ 3.4 Q4	+ 1.4	+ 3.0	− 4.7	+ 1.2 Feb	+ 1.5 Feb	4.3 Mar	4.0
Euro area	+ 2.8	+ 3.0 Q4	+ 2.4	+ 2.7	+ 6.6	+ 5.1 Jan	+ 2.3 Jan	8.7 Feb	9.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	+ 3.0	+ 5.5 Q4	na	na	+ 2.6	+ 6.7 Jan	+ 4.3 Dec	9.8 Feb*	11.3
Greece	na	+ 2.5 2000	na	na	na	+ 3.1 Nov	+ 6.0 Nov	na	na
Iceland	na	+ 4.4 1999	na	na	na	+ 4.2 1999	na	1.3 Jan	1.5
Ireland	na	+11.0 Q3	na	na	na	+32.2 Jan	+ 4.6 Jan	3.6 Mar	4.3
Luxembourg	na	+ 8.5 2000	na	na	na	+ 0.6 Dec*	+ 9.4 Nov	2.8 Jan	2.6
New Zealand	+ 2.2	+ 1.6 Q4	na	na	na	+ 2.7 Q3*	+ 7.3 Q4	5.6 Q4	6.3
Norway	+ 0.2	+ 0.9 Q4	na	na	+ 3.5	− 0.3 Jan	− 2.4 Feb	3.1 Q4	3.2
Portugal	+ 5.1	+ 3.4 Q3	na	na	na	− 0.3 Jan*	+ 4.6 Jan	3.8 Q4	4.1

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡Dec-Feb; claimant count rate 3.3% in March. §Dec-Feb.

Text refers only to the first 16 countries listed

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COMMODITY PRICE INDEX

Apr 12th 2001
From The Economist print edition

Aluminium production in America's north-west could soon be a thing of the past. The Bonneville Power Administration, a federal agency, has asked the power-greedy aluminium smelters to shut down for the next two years to stop electricity costs from rising as much as threefold when new contracts are let in October. Because of rising power costs, only a tenth of primary aluminium capacity is still working in the region, which usually accounts for 42% of America's capacity and 6% of global capacity. Slowing world demand for aluminium will offset reduced output this year. But Brook Hunt, a consultancy, says the market will have a deficit of 350,000 tonnes. Prices could rise sharply when demand returns.

1995=100	Apr 3rd	Apr 9th*	% change on one month	% change on one year
Dollar index				
All items	68.2	68.4	– 3.5	– 7.2
Food	67.3	67.2	– 4.7	– 6.1
Industrials				
All	69.3	70.1	– 1.8	– 8.7
Nfa†	65.2	66.3	+ 0.9	– 10.7
Metals	72.9	73.3	– 3.8	– 7.1
Sterling index				
All items	75.3	74.5	– 3.3	+ 1.6
Food	74.4	73.1	– 4.5	+ 2.9
Industrials	76.6	76.3	– 1.6	+ 0.1
Euro index				
All items	101.1	99.8	– 1.8	– 1.0
Food	99.8	98.0	– 3.1	+ 0.2
Industrials	102.8	102.2	– 0.1	– 2.5
Yen index				
All items	91.3	91.1	+ 0.5	+ 8.4
Food	90.2	89.4	– 0.8	+ 9.7
Industrials	92.9	93.3	+ 2.2	+ 6.8
Gold				
$ per oz	257.25	258.65	– 3.8	– 8.5
Crude oil North Sea Brent				
$ per barrel	24.61	25.60	– 0.3	+ 17.8
West Texas Intermediate				
$ per barrel	26.63	27.40	0.0	+ 13.0

*Provisional. † Non-food agriculturals

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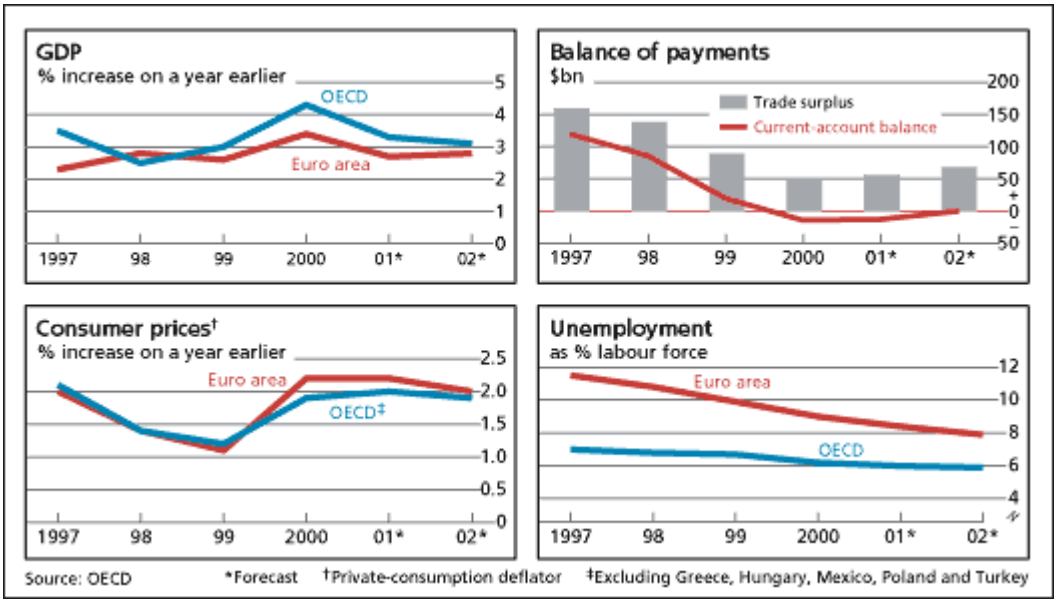
EURO AREA

Apr 12th 2001
From The Economist print edition

In a new economic survey, the OECD highlights the pace of job creation in the euro area, which has been stronger in relation to output growth than in America or Britain over the past three years. However, it says that full employment remains a distant goal in many euro countries. The current wave of tax cuts, the biggest in a decade, is not sufficiently focused on reducing the tax burden on labour. The OECD also finds no clear evidence that productivity performance is about to improve as a result of the new economy. It forecasts that growth in the euro area will be just ahead of trend over the next two years. However, it warns that a hard landing in the American economy would damage growth in the euro area, especially if it led to a bounceback in the euro's exchange rate.



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PRICES AND WAGES

Apr 12th 2001
From The Economist print edition

Producer prices rose in Japan to their highest level since November 1998. Britain's imported meat prices were 22.6% higher in March than a year earlier, but its 12-month producer-price inflation decelerated. Also in March, consumer-price inflation rose in the Netherlands but fell in Denmark; and American wages climbed by 4.3%, a real rise of 0.8%.

% change at annual rate	Consumer prices*		The Economist poll consumer prices forecast		Producer prices*		Wages/earnings	
	3 mths†	1 year	2001	2002	3 mths†	1 year	3 mths†	1 year
Australia	+ 1.2	+ 5.8 Q4	+ 3.5	+ 2.3	+10.2	+ 8.4 Q4	– 3.3	+ 5.0 Q4
Austria	na	+ 2.6 Feb	+ 1.8	+ 1.4	– 0.2	+ 2.7 Mar	+ 5.4	+ 2.6 Feb
Belgium	+ 0.8	+ 2.1 Mar	+ 1.9	+ 1.8	– 3.5	+ 5.4 Jan	+ 3.7	+ 1.6 Q4
Britain	– 0.1	+ 2.7 Feb	+ 2.0	+ 2.3	– 2.7	+ 0.8 Mar	+10.5	+ 5.0 Feb
Canada	+ 0.7	+ 2.9 Feb	+ 2.3	+ 2.0	– 0.9	+ 2.6 Feb	+ 0.5	+ 0.2 Jan‡
Denmark	+ 1.7	+ 2.3 Mar	+ 2.3	+ 2.2	– 4.6	+ 3.4 Feb	+ 3.0	+ 3.6 Q4
France	– 0.5	+ 1.4 Feb	+ 1.4	+ 1.4	– 3.1	+ 3.4 Feb	+ 2.6	+ 5.0 Q4
Germany	+ 4.3	+ 2.5 Mar	+ 1.8	+ 1.3	– 1.5	+ 3.7 Feb	na	+ 2.4 Jan*
Italy	+ 3.4	+ 2.8 Mar	+ 2.3	+ 1.9	+ 1.6	+ 4.9 Feb	+ 1.2	+ 2.0 Feb*
Japan	– 0.8	– 0.1 Feb	– 0.5	– 0.3	+ 2.5	+ 1.1 Mar	na	+ 0.7 Feb
Netherlands	+ 6.9	+ 4.6 Mar	+ 3.6	+ 2.3	– 0.9	+ 5.3 Feb	+ 2.3	+ 3.0 Feb
Spain	+ 3.0	+ 3.8 Feb	+ 3.0	+ 2.4	– 0.6	+ 3.6 Feb	+ 1.9	+ 2.2 Q4
Sweden	na	+ 1.6 Feb	+ 1.6	+ 1.7	+ 0.6	+ 2.5 Feb	+ 3.7	+ 2.6 Dec*
Switzerland	– 0.1	+ 0.9 Mar	+ 1.2	+ 1.3	– 2.0	+ 0.8 Feb	na	+ 0.2 1999
United States	+ 3.7	+ 3.5 Feb	+ 2.8	+ 2.2	+ 5.1	+ 4.0 Feb	+ 4.3	+ 4.3 Mar
Euro area	+ 1.6	+ 2.6 Feb	+ 2.0	+ 1.6	– 0.2	+ 4.4 Feb	+ 2.4	+ 2.4 Q4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 0.6	+ 3.1 Feb	na	na	– 7.4	+ 3.2 Feb	+ 3.0	+ 4.3 Q4*
Greece	– 2.7	+ 3.0 Mar	na	na	+ 0.9	+ 5.2 Jan	na	na
Iceland	+ 2.3	+ 3.9 Mar	na	na	+10.1	+ 6.0 Mar	+11.0	+ 8.2 Feb
Ireland	+ 1.3	+ 5.3 Feb	na	na	– 1.5	+ 3.5 Feb	+ 4.7	+ 7.4 Q3*
Luxembourg	– 0.1	+ 2.9 Mar	na	na	+ 2.5	+ 5.3 Jan	+ 7.7	+ 8.4 Oct*
New Zealand	+ 4.7	+ 4.0 Q4	na	na	+15.0	+10.2 Q4	+ 1.8	+ 1.6 Q4
Norway	+ 6.1	+ 3.7 Mar	na	na	na	+ 3.8 Feb	+ 7.7	+ 4.3 Q4*
Portugal	+ 5.3	+ 4.8 Feb	na	na	– 9.5	+ 6.0 Feb	na	+ 1.6 Jan*

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡New series.

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MONEY AND INTEREST RATES

Apr 12th 2001
From The Economist print edition

Prices of American Treasury bonds fell on April 10th, as the stockmarket rally lured investors away from fixed-income securities. The 12-month growth in Japan's broad money supply fell to 2.6% in March.

	Money supply* % rise on year ago			Interest rates % p.a. (Apr 10th 2001)						
				over-	3-mth money market		banks	2-year	10-year gov't		corporate
	narrow	broad		night	latest	year ago	prime	gov't bonds	latest†	year ago	bonds
Australia	+11.3	+7.4	Feb	5.00	4.92	6.03	8.00	4.64	5.48	6.21	6.84
Britain	+8.4	+9.0	Feb	5.59	5.34	6.19	6.50	4.88	4.75	5.19	6.39
Canada	+13.6	+6.3	Feb	4.81	4.52	5.36	6.75	4.72	5.53	5.88	7.10
Denmark	−0.2	−5.2	Feb§	5.50	4.95	4.11	8.00	4.64	4.98	5.45	7.09
Japan	+5.0	+2.6	Mar	0.01	0.30	0.04	1.38	0.11	1.29	1.78	1.45
Sweden	+3.9	−0.2	Feb	4.10	3.86	3.98	4.30	3.94	4.74	5.31	4.83§
Switzerland	−2.9	+0.9	Feb	3.00	3.24	2.90	5.38	3.10	3.21	3.68	4.02
United States	0.7	+10.1	Feb	4.94	4.66	6.08	8.00	4.21	5.07	5.97	7.03
Euro area‡	+1.8	+4.7	Feb	4.75	4.56	3.92	4.50	4.10	4.70	5.10	5.56

†France 4.85, Germany 4.70, Italy 5.20. Benchmarks: Japan No.230 1.33, US 30-yr 5.50. ‡Germany for prime and bonds. §New series.

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. Sources: Commerzbank, Den Danske, J.P. Morgan Chase, Royal Bank of Canada, Svenska Handelsbanken, Warburg Dillon Read, WEFA Gp, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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STOCKMARKET CONCENTRATION

Apr 12th 2001
From The Economist print edition

In most stockmarkets, the ten biggest companies account for a significant slice of total market capitalisation. In both Finland and Switzerland, their share is over 80%. In Finland, a single company, Nokia, which makes mobile phones, weighs in at 66% of the total. Besides Finland, only in Switzerland and the Netherlands does one company account for at least 20% of the stockmarket. Bigger markets tend to be less concentrated: America's biggest company, General Electric, makes up only 2.7% of its stockmarket. Concentration has declined in several countries as the value of telecoms companies, often the biggest in a market, has fallen. A year ago, five countries in our chart had a top-ten share of over 60%. Now only three do.

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TRADE, EXCHANGE RATES AND BUDGETS

Apr 12th 2001
From The Economist print edition

The euro fell by 1.4% against the dollar. In trade-weighted terms the euro lost 1.5%, while the yen rose by 1.0%. The Australian dollar strengthened by 2.2% from the record low against the greenback that it had reached on April 3rd. The Austrian trade deficit widened to $4.6 billion in the 12 months to January.

	Trade balance*, $bn		Current account			Exchange rate		Currency units					Budget
	latest month	latest 12 months	$bn latest 12 mths	The Economist poll % of GDP, forecast 2001	2002	trade-weighted† Apr 10th	year ago	per $ Apr 10th	per $ year ago	per £	per euro	per ¥100	balance % of GDP 2000‡
Australia	+ 0.28 Feb	– 3.6	– 15.1 Q4	-3.0	-3.2	69.9	76.5	2.02	1.67	2.90	1.79	1.62	0.9
Austria	– 0.57 Jan§	– 4.6	– 5.0 Jan	-2.4	-1.9	100.3	100.1	15.5	14.4	22.2	13.8	12.4	-1.6
Belgium	+ 0.37 Jan§	+ 12.8	+ 11.6 Dec	4.0	4.0	98.9	98.8	45.3	42.1	65.2	40.3	36.4	-0.1
Britain	– 3.48 Jan	– 42.6	– 24.5 Q4	-2.0	-1.9	106.3	109.4	0.70	0.63	–	0.62	0.56	2.7
Canada	+ 4.19 Jan	+ 37.7	+ 12.7 Q4	1.1	0.9	77.3	80.7	1.56	1.46	2.24	1.38	1.25	2.5
Denmark	+ 0.42 Jan	+ 5.0	+ 2.8 Jan	1.4	1.4	101.6	100.7	8.39	7.78	12.1	7.46	6.74	2.7
France	+ 0.28 Jan	+ 1.1	+ 24.1 Dec	1.9	1.8	101.5	101.5	7.37	6.85	10.6	6.56	5.92	-1.4
Germany	+ 5.74 Feb§	+ 51.9	– 24.2 Feb	-1.3	-1.1	98.5	98.3	2.20	2.04	3.16	1.96	1.77	1.4
Italy	+ 0.97 Jan	+ 1.4	– 4.4 Dec	-0.3	nil	72.5	72.5	2,176	2,021	3,130	1,936	1,748	-0.1
Japan	+ 8.86 Feb§	+ 108.6	+ 112.1 Feb	2.2	2.2	135.8	153.5	124	106	179	111	–	-6.0
Netherlands	+ 1.49 Jan§	+ 15.2	+ 13.7 Q4	3.9	3.9	97.8	97.6	2.48	2.30	3.56	2.20	1.99	1.6
Spain	– 3.10 Jan	– 39.6	– 17.7 Dec	-2.9	-2.6	74.1	74.0	187	174	269	166	150	-0.3
Sweden	+ 0.98 Feb	+ 13.6	+ 5.6 Jan	2.1	2.1	77.3	84.3	10.16	8.68	14.6	9.04	8.16	3.4
Switzerland	+ 0.17 Feb§	– 0.8	+ 31.1 Q4	11.8	11.2	108.1	104.5	1.71	1.64	2.47	1.53	1.38	na
United States	– 39.50 Jan	– 455.2	– 434.9 Q4	-4.3	-4.1	119.8	108.2	–	–	1.44	0.89	0.80	2.3
Euro area	– 6.94 Jan§	– 9.3	– 25.4 Jan	-0.2	-0.1	78.6	79.3	1.12	1.04	1.62	–	0.90	0.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*												
Finland	+ 0.77 Feb§	+ 13.1	+ 9.5 Jan	na	na	77.9	76.9	6.59	6.21	9.48	5.86	5.29	4.0
Greece	– 1.80 Q3	– 7.2	– 7.8 Oct	na	na	57.4	58.3	378	350	543	336	303	-1.0
Iceland	– 0.01 Feb§	– 0.5	– 0.9 Q4	na	na	na	na	92.7	73.6	133	82.5	74.5	2.8
Ireland	+ 2.47 Dec	+ 25.9	+ 0.2 Q3	na	na	87.2	86.9	0.87	0.82	1.25	0.77	0.70	5.6
Luxembourg	– 0.18 Dec§	– 2.4	+ 1.6 Q4	na	na	98.8	98.8	44.7	42.1	64.3	39.8	35.9	na
New Zealand	+ 0.16 Feb§	– 0.5	– 2.7 Q4	na	na	77.9	86.3	2.47	2.01	3.55	2.19	1.98	0.5
Norway	+ 2.29 Feb	+ 26.2	+ 22.5 Jan	na	na	94.4	92.1	9.06	8.52	13.0	8.06	7.28	14.0
Portugal	– 1.32 Dec§	– 14.9	– 10.4 Jan	na	na	89.2	89.0	222	209	320	198	178	-1.5

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.
§Not seasonally adjusted.

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STOCKMARKETS

Apr 12th 2001
From The Economist print edition

Stockmarkets rebounded, as investors sought bargains in the belief that markets had been oversold. The Dow Jones Industrial Average rose by 6.2%, closing above the 10,000 level and only 13.8% off its record high. The Nasdaq Composite index gained 13.0%.

Market indices	Apr 10th	2001 high	2001 low	% change on one week	% change on one year	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,169.6	3,312.1	3,094.3	+ 1.0	+ 1.2	– 4.8	+ 0.5	– 10.4
Austria (ATX)	1,201.5	1,219.5	1,052.2	+ 2.2	+ 7.2	– 30.8	+ 11.9	+ 6.1
Belgium (Bel 20)	2,915.3	3,030.4	2,591.6	+ 3.2	– 1.9	– 20.8	– 3.6	– 8.7
Britain (FTSE 100)	5,803.0	6,334.5	5,314.8	+ 4.8	– 8.6	– 16.3	– 6.7	– 10.2
Canada (Toronto Composite)	7,745.8	9,348.4	7,415.5	+ 4.5	14.4	32.0	13.3	16.3
Denmark (Copenhagen SE)	847.9	1,002.1	818.3	+ 3.6	+ 0.7	18.4	6.5	11.4
France (SBF 250)	3,401.1	3,820.2	3,107.9	+ 4.7	– 14.0	– 22.5	– 9.8	– 14.5
Germany (Xetra DAX)	5,913.8	6,795.1	5,388.0	+ 5.6	– 20.5	– 26.7	– 8.1	– 12.9
Italy (BCI)	1,757.0	1,948.4	1,609.6	+ 4.7	– 9.4	– 19.5	– 8.3	– 13.1
Japan (Nikkei 225)	12,620.3	14,032.4	11,819.7	– 4.7	– 39.4	– 67.6	– 8.5	– 16.0
(Topix)	1,263.7	1,337.6	1,162.0	– 3.1	– 25.9	– 56.2	– 1.6	– 9.7
Netherlands (EOE)	570.5	642.3	518.3	+ 6.1	– 13.7	– 18.7	– 10.5	– 15.2
Spain (Madrid SE)	917.2	963.9	818.6	+ 4.5	12.9	20.0	+ 4.1	1.3
Sweden (Affarsvarlden Gen)	238.6§	292.7§	217.2§	+ 8.8	31.3	40.3	14.0	20.1
Switzerland (Swiss Market)	7,173.5	8,135.4	6,574.0	+ 5.1	– 5.0	– 14.7	– 11.8	– 16.6
United States (DJIA)	10,102.7	10,983.6	9,389.5	+ 6.2	– 9.2	– 13.8	– 6.3	– 6.3
(S&P 500)	1,168.4	1,373.7	1,103.3	+ 5.9	– 20.4	– 23.5	– 11.5	– 11.5
(Nasdaq Comp)	1,852.0	2,859.2	1,638.8	+ 13.0	– 50.9	– 63.3	– 25.0	– 25.0
Europe (FTSE Eurotop 300) *	1,405.4	1,545.5	1,279.0	+ 5.8	– 12.3	– 17.6	– 8.4	– 13.1
Euro area (FTSE Ebloc 100) *	1,261.9	1,404.1	1,143.9	+ 5.5	12.7	18.6	9.4	14.1
World (MSCI)†	1,075.2	1,249.2	1,014.6	+ 4.2	23.3	25.8	na	12.5
World bond market (Salomon)‡	431.9	447.8	428.4	– 0.5	– 0.7	– 6.1	na	– 2.7

*In euro terms †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms ‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms §Rebased

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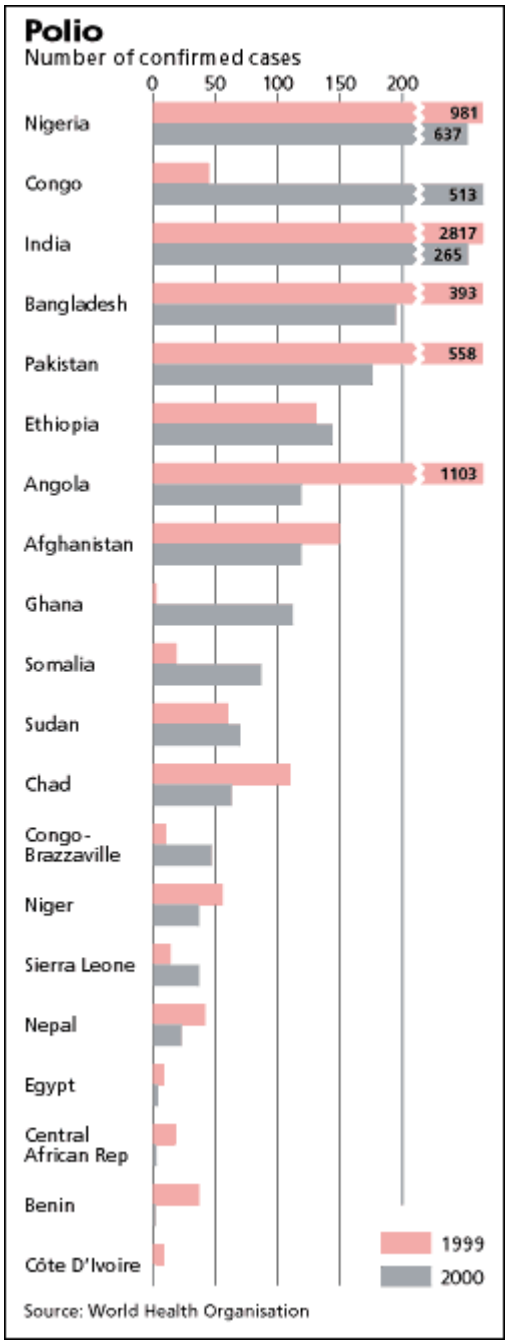
POLIO

Apr 12th 2001
From The Economist print edition

Health authorities are gaining ground on the polio virus, according to the global polio eradication initiative. Some 3,500 cases of polio, concentrated in 20 countries across Africa and South Asia, were reported worldwide in 2000. Almost twice as many cases were reported in 1999; the decline is mainly thanks to the success of mass vaccination campaigns. Last year 550m children under five years old were immunised against polio, in 82 countries. Some countries, such as India, have had considerable success with vaccination. But in others, such as Sudan and Somalia, war and poverty make mass immunisation much harder. The global initiative would like to see polio flushed out of its remaining strongholds by 2005; it reckons it will need $1 billion to deliver 6 billion doses of vaccine to 600m children in order to rid the world of this affliction. The price is high, but so too are the rewards: children would be spared a disabling disease, and the world could save some $1.5 billion a year in costs.



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FINANCIAL MARKETS

Apr 12th 2001
From The Economist print edition

Kuala Lumpur fell by 6.5%, hitting a two-year low, on worries about economic prospects. Budapest regained some lost ground, climbing by 6.7%. Istanbul rose by a modest 2.4% as investors awaited government plans to deal with the financial crisis; but in dollar terms, the market has still lost more than 50% of its value since the start of the year.

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 10th		Dec 31st 2000	
	Apr 10th	year ago	Apr 10th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.9	na	2,228.9	+ 1.7	+ 1.7	+ 1.7
Hong Kong	7.80	7.79	11.2	4.86	12,213.7	+ 1.2	– 19.1	– 19.1
India	46.5	43.6	66.9	8.50	3,458.4	– 3.0	– 12.9	– 12.7
Indonesia	10,653	7,620	15,324	15.95	369.2	+ 0.5	– 11.3	– 19.5
Malaysia	3.80	3.80	5.47	3.30	555.5	– 6.5	– 18.3	– 18.3
Philippines	49.9	41.2	71.8	11.94	1,459.5	+ 0.5	– 2.3	– 2.1
Singapore	1.81	1.72	2.61	2.38	1,605.1	– 1.0	– 16.7	– 20.3
South Korea	1,333	1,108	1,918	5.84	491.2	– 0.5	– 2.7	– 7.6
Taiwan	32.9	30.3	47.3	4.70	5,353.5	– 1.0	+ 12.8	+ 13.5
Thailand	45.6	38.0	65.6	2.50	279.5	+ 0.1	+ 3.8	– 1.1
Argentina	1.00	1.00	1.44	10.19	463.0	+ 7.4	+ 11.0	+ 10.9
Brazil	2.14	1.75	3.08	15.83	15,047.8	+ 9.0	– 3.5	– 12.2
Chile	595	505	857	3.96*	4,871.4	– 0.7	+ 0.0	– 3.6
Colombia	2,311	1,987	3,324	12.93	832.5	+ 0.6	+ 16.8	+ 13.0
Mexico	9.33	9.40	13.4	15.48	5,968.7	+ 7.4	+ 5.6	+ 8.8
Peru	3.54	3.43	5.1	12.47	1,224.3	– 2.9	+ 1.3	+ 0.8
Venezuela	709	672	1,020	13.33	7,570.4	+ 5.0	+ 11.4	+ 10.0
Egypt	3.89	3.43	5.59	9.11	6,092.4	+ 0.7	– 20.5	– 20.4
Israel	4.16	4.03	5.98	5.30	392.5	+ 5.6	– 20.6	– 22.9
South Africa	8.04	6.57	11.6	10.66	8,365.9	+ 5.1	+ 0.5	– 5.4
Turkey	1,295,000	592,150	1,862,858	77.00	8,312.2	+ 2.4	– 11.9	– 54.4
Czech Republic	39.1	38.2	56.3	5.00	421.6	+ 3.7	– 11.9	– 15.2
Hungary	300	270	431	11.35	6,814.5	+ 6.7	– 13.2	– 18.3
Poland	4.04	4.10	5.81	17.26	14,965.9	+ 5.4	– 16.1	– 14.2
Russia	28.9	28.5	41.5	25.00	168.6†	+ 4.6	+ 18.6	+ 17.7

*Inflation adjusted. †In dollar terms.

Sources: National statistics offices, central banks and stock exchanges; Primark Datastream; EIU; Reuters; Warburg Dillon Read; J.P. Morgan; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Bank Ekspres; Deutsche Bank; *Russian Economic Trends*.

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ECONOMY

Apr 12th 2001
From The Economist print edition

Singapore's GDP fell by 5.6% in the first quarter, slowing its year-on year growth to 4.6%. In the 12 months to February, industrial output grew by 4.3% in Malaysia, 2.4% in Thailand and 1.5% in Brazil. Consumer-price inflation rose to 23.8% in Russia in the year to March; but prices in Argentina fell by 1% over the same period.

	% change on year earlier			Latest 12 months, $bn		Foreign reserves*, $bn	
	GDP	Industrial production	Consumer prices	Trade balance	Current account	Latest	Year ago
China	+ 7.3 Q4	+19.0 Feb	+ 1.6 Feb‡	+23.6 Feb	+15.7 1999	171.3 Jan	159.0
Hong Kong	+ 6.8 Q4	− 0.2 Q4	− 2.1 Feb	−11.7 Feb	+ 8.8 Q4	114.3 Feb	93.1
India	+ 6.0 Q2	+ 2.8 Jan	+ 3.0 Feb	− 6.7 Feb	− 5.4 Q4	39.0 Feb	33.5
Indonesia	+ 5.2 Q4	+ 4.5 Q4‡	+ 10.6 Mar	+27.4 Feb	+ 6.1 Q1	22.6 Dec	26.5
Malaysia	+ 6.5 Q4	+ 4.3 Feb	+ 1.6 Feb	+16.1 Feb	+ 9.7 Q3	28.5 Feb	33.2
Philippines	+ 3.6 Q4	− 2.4 Jan	+ 6.7 Mar	+ 7.3 Jan	+ 9.3 Dec	12.5 Jan	12.9
Singapore	+ 4.6 Q1	+13.3 Feb	+ 1.4 Feb	+ 3.7 Feb	+21.8 Q4	80.0 Jan	75.9
South Korea	+ 4.6 Q4	+ 8.6 Feb	+ 4.4 Mar	+14.1 Mar	+11.3 Feb	94.4 Mar	83.6
Taiwan	+ 4.1 Q4	+ 9.1 Feb	+ 0.4 Mar	+10.3 Mar	+ 9.6 Q4	110.1 Feb	113.6
Thailand	+ 3.1 Q4	+ 2.4 Feb	+ 1.4 Mar	+ 4.5 Feb	+ 8.1 Feb	32.5 Feb	31.2
Argentina	− 2.0 Q4	− 0.1 Feb	− 1.0 Mar	+ 1.5 Feb	−10.5 Q3	25.4 Feb	24.7
Brazil	+ 4.4 Q4	+ 1.5 Feb	+ 5.9 Feb	− 1.3 Mar	−26.4 Feb	35.2 Jan	36.2
Chile	+ 4.5 Q4	− 0.2 Feb	+ 3.5 Mar	+ 1.3 Feb	− 1.0 Q4	14.5 Feb	14.0
Colombia	+ 2.1 Q4	+ 1.5 Feb	+ 7.8 Mar	+ 2.2 Jan	+ 0.2 Q3	9.3 Feb	8.1
Mexico	+ 5.1 Q4	+ 1.9 Jan	+ 7.2 Mar	− 8.7 Feb	−17.7 Q4	39.1 Feb	33.3
Peru	− 1.6 Jan	+ 0.2 Jan	+ 3.6 Feb	− 0.4 Jan	− 1.7 Q4	8.4 Jan	9.1
Venezuela	+ 3.3 Q3	na	+ 12.5 Mar	+ 6.6 Oct	+13.4 Q4	12.9 Feb	11.5
Egypt	+ 6.5 2000†	+ 9.4 2000†	+ 2.3 Dec	−10.4 Q4	− 0.8 Q4	13.1 Dec	14.5
Israel	+ 3.0 Q4	+10.7 Jan	+ 0.3 Feb	− 7.1 Feb	− 0.7 Q3	23.9 Mar	22.8
South Africa	+ 3.3 Q4	+ 1.6 Feb	+ 7.8 Feb	+ 3.4 Feb	− 0.5 Q4	6.1 Jan	6.4
Turkey	+ 8.3 Q4	+ 6.5 Jan	+ 37.5 Mar	−27.1 Jan	− 9.8 Dec	21.7 Feb	23.2
Czech Republic	+ 3.9 Q4	+ 6.5 Feb	+ 4.1 Mar	− 3.4 Feb	− 2.3 Q4	13.0 Feb	12.6
Hungary	+ 4.2 Q4	+18.5 Feb	+ 10.5 Mar	− 2.4 Feb	− 1.8 Feb	10.7 Mar	10.7
Poland	+ 2.4 Q4	− 0.1 Feb	+ 6.6 Feb	−10.7 Feb	− 9.4 Feb	26.6 Feb	24.5
Russia	+ 7.7 2000	+ 0.8 Feb	+ 23.8 Mar	+61.0 Dec	+46.4 Q4	24.6 Feb	9.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*						
Pakistan	+ 3.9 1999†	+ 6.8 Sep	+ 4.6 Feb	− 1.9 Jan	− 2.5 1999	1.1 Jan	1.6
Saudi Arabia	+ 0.4 1999	na	− 1.3 Dec	+24.9 1999	+ 0.4 1999	17.1 Jan	16.2

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

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